Board of Directors
Twelfth Annual Study
February 1985

KORN/FERRY INTERNATIONAL

TABLE OF CONTENTS

1 Introduction
4 Summary of Findings
14 Statistical Tables
Present Number of Board Members
Outside Directors on the Board
Chairman Also CEO, CEO Also COO
15 Board Composition
16 Committees
17 Compensation
19 Committee Compensation
Additional Compensation Information
21 Board Practices and Policies
22 Locating Outside Directors
23 Issues
24 Participating Companies
25 Worldwide Offices, United States
Worldwide Offices, International

KORN/FERRY INTERNATIONAL
TWELFTH ANNUAL BOARD OF DIRECTORS STUDY

Introduction

If 1984 has taught us anything, it is that directors are increasingly in the public "spotlight," and they are going to be held more accountable for the actions of the corporations they serve.

Shareholders are demanding performance and value for their investment. Employees are demanding improved compensation and job security. Government is demanding compliance with myriad standards and more severe strictures. Customers are demanding that products and services keep pace with their changing needs. Communities are demanding corporate citizenship and commitment.

Everyone—within and without the corporation—is demanding that directors serve many diverse and often conflicting interests.

The current climate may discourage accomplished individuals—the ones most in demand—from accepting new board positions. At the very least, directors must accept the post with eyes wide open. What is the role and responsibility of the director? How does the director exercise it? What constitutes due diligence? And how is the director prepared and equipped for such a role and the responsibility that goes with it?

No doubt the issues will be seriously debated by all corporations and, in particular, the 38 percent of companies we surveyed who said they are planning to select new board members in 1985.

Accountability: The Key Issue

Our latest board study was answered by a record 633 out of 1,000 of America's largest companies. This unusually high response tells us that corporations appear to be more anxious than ever to compare notes, assemble facts and get a general consensus of what is going on in boardrooms. More to the point, it is clear that the key issue on everyone's mind is *accountability.*

In preparing this report, we reviewed the trends we predicted over the past several years to determine their validity today. We also identified five new trends that will have direct impact on corporate accountability.

Six of the trends we predicted in 1983 are particularly relevant. Clearly, the days of the "rubber stamp" board are over. Director compensation continues to rise. Senior executives from outside companies, with strong operating experience, are the most sought-after directors. Former high-ranking government officials, especially those who came out of the private sector, are in demand. A new generation of bright, young "stars" is filling recently vacated board seats. And outside lawyers, investment bankers and commercial bankers are on the decline as directors.

The days when a company could afford to add a new director on the basis of an impressive resumé are long gone. Too much is at stake. If corporations want to attract top-quality directors and demand accountability from them, they must be willing to offer them something in return.

Time, Dollars and Influence

In the years to come, three critical factors will determine whether or not a talented individual accepts a board position. They are influence, dollars and time.

Today's director wants, and more appropriately needs, the latitude to effectively influence a corporation's policies and practices. Increasingly, directors are becoming less bashful and more assertive, asking the CEO the really tough questions. Directors rarely accept a board seat in which they will have little, if any, power.

Directors also expect to be and should be well compensated for their efforts. If they are willing to take responsibility for the corporate governance of a corporation, they must be paid on a scale commensurate with the job. Our study again shows that companies are willing to pay for quality directors.

Time is the major obstacle in attracting new board members. Our latest study also reveals that the average board member of a billion dollar plus company spends about 160 hours a year on board duties. Prospective directors are asking themselves how they can possibly afford the time to do an adequate job. Equally important, many are asking, why take the risk of serving? Increasingly, qualified potential directors are turning down board opportunities.

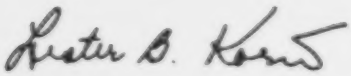
The Activist Board at Work

Given the inescapability of these issues, we see five new trends emerging over the next several years. All of them relate to accountability.

- *Trend #1*—In the wake of mounting legal issues, increased time constraints and potentially adverse public visibility, directors will be less likely to accept automatic renomination. Fewer may be willing to serve. The total population of qualified directors willing to accept new board memberships is likely to shrink.

- *Trend #2*—Board members of necessity will become increasingly accessible to senior and operating management, not just the CEO. This accessibility should not be seen as a threat to the CEO.
- *Trend #3*—Directors will increasingly hold meetings at key company facilities, such as R&D labs, manufacturing floors, and so on. It is time for directors to get away from the "ivory tower" and to experience firsthand what is happening in the trenches. Many feel this "hands on" approach will make a difference in directors' impact on strategy and day-to-day operations.
- *Trend #4*—Board members will continue to get more compensation, either in fees or in perks. We also believe that directors, like managers, will be paid on scales commensurate with their special contributions to the board for serving on strategically important committees.
- *Trend #5*—Directors will work increasingly toward devising methods of more effectively measuring the performance of the CEO and other key executives. If the board is to be truly accountable, standards of performance are a must.

Motivated by the increased demand for accountability, the "activist board" we identified several years ago is taking form. The effects of this trend should prove highly beneficial to corporations, their constituents and management.



Lester B. Korn
Chairman

Richard M. Ferry
President

February 28, 1985

SUMMARY OF FINDINGS

On a question-by-question basis, the following are the key findings of the Korn/Ferry International Twelfth Annual Board of Directors Study.

1. Size of Board (Table 1)

Corporate boards, on the average, are composed of 13 directors, a number which has remained constant since this study was launched 12 years ago. Board size, however, does vary with company size and type of business. The largest boards are found among banks and other financial institutions, which average 19 members. Smaller companies with revenues of under $200 million have an average of only 10 board members.

During the past year, the average number of directors for $3 billion plus companies dropped by one, while board membership for most smaller industrials increased by one. Retailers showed a marked increase in board size, from an average of 13 to 16 members.

2. Inside Directors vs. Outside Directors (Tables 1 and 2)

For the seventh consecutive year, corporations surveyed have reported an average of four inside directors and nine outside directors (Table 1).

Companies are showing a stronger and stronger preference for outside directors. Eighty-three percent of respondents now indicate that outside directors should fill a majority of board seats compared with 81 percent in 1983 and only 62 percent in 1976, when this question was first asked. In addition, 36 percent of all respondents believe that at least three-quarters of the board should be made up of outside directors (Table 2).

Banks and other financial institutions expressed the strongest preference for outside directors, with 90 percent opting for outside director dominance.

3. Is the Chairman also the CEO? Is the CEO also the COO? (Table 3)

Seventy-seven percent of this year's respondents again report that their chairman is also chief executive officer. This combination of duties occurs most frequently (85 percent) in banks and other financial institutions and among larger companies. But industrials with revenues of under $200 million increasingly seem to be vesting one executive with this dual role: 77 percent in 1984 compared with only 65 percent cited two years before. Forty-two percent of the respondents report that their chief executive officer is also their chief operating officer, about the same as last year.

4. Board Composition (Table 4)

Corporate boards have been moving steadily towards greater independence over the past 12 years, and this year's study reconfirms the

fundamental changes in board composition that reflect this trend. Directors are now drawn from three primary sources: senior executives of other companies (88 percent) retired executives of other companies (69 percent) and academicians (52 percent). Directors from these three sources are even more prevalent on the boards of billion dollar companies, 91 percent of which include at least one senior executive from another company. Senior executives from other companies average five to a board among this year's respondents, well above the average of only one or two from other sources. Attorneys who provide legal services for the company continue to decline as representatives on all boards as do commercial bankers and major shareholders who are not officers of the company (Table 4A).

Representation among women was up moderately this year, from 43 percent to 45 percent. Minorities have held steady and sit on more than a quarter of the boards surveyed. While women and minorities made dramatic gains in board representation early in the decade, 1984 saw only a slight increase for them over the year before. Both women and ethnic directors continue to come primarily from the ranks of senior officers of other companies and from academia. While a growing number of minorities are taken from the ranks of senior executives of other companies and increasingly from the legal profession, women directors currently come most often from academia (Table 4B).

As in the past, banks and other financial institutions have the highest number of women and minority board members. Women sit on nearly three-quarters of participating financial company boards, while minorities are represented on 53 percent, up a significant 8 percent from last year.

Former government officials are widely sought as outside directors. Of all respondent boards, 31 percent now report seating a former government official, up seven percent from five years ago.

Among industrials, nearly one-half of the billion dollar companies and nearly two-thirds of those in the $3 billion and over category report having former government officials as directors. They also serve on 12 percent of the smaller company boards (under $200 million), up 5 percent over last year.

5. Committees (Table 5)

The most prevalent standing committees in use remain audit (98 percent), compensation (86 percent) and executive (80 percent), but the nominating committee continues to gain favor. In our first survey 12 years ago, only two percent of the companies had standing nominating committees. Now 62 percent report a nominating committee, up 10 percent during the last five years (Table 5A). Seventy-five percent of the $5 billion plus companies report a nominating committee. Smaller companies with revenues under

$200 million make much less frequent use of the nominating committee, but nevertheless, their incidence took a big jump in 1984 from 35 percent to 47 percent.

Nearly 60 percent of companies report that their nominating committees participate actively in committee appointments and 42 percent in management succession. The scope of the nominating committee has broadened: respondents now cite the nominating committee as often as the executive committee as a participant in the management succession process. However, the compensation/personnel committee retains the predominant role in management succession.

Committee composition has remained relatively constant. The ratio of outside to inside directors, as well as the average number of directors on standing committees, remains unchanged. Committees average from four to six directors. Audit and compensation committees continue to be composed entirely of outside directors (Table 5B). (The NYSE now requires boards to maintain active audit committees made up exclusively of directors independent of management.)

The number of committee meetings per year averages from two to four, unchanged from last year. However the number of meetings for the executive committee shows a steady decline from six meetings five years ago and four in 1983 to three meetings in 1984. Perhaps the growing involvement of the total board in major issues has reduced the need for executive committee meetings (Table 5C).

Thirty-three percent of respondents acknowledge that outside consultants are brought in to assist board committees, 79 percent of the time for matters relating to compensation and 45 percent of the time for assistance in the area of mergers and acquisitions.

6. Compensation (Table 6)

The annual plus per-meeting fee remains the generally accepted form of compensation for outside directors with 85 percent of this year's respondents reporting its use (Table 6A). This method is most widely used by insurance companies (90 percent). Retailers who in the past often paid an annual fee only, have now turned largely to annual plus per-meeting fee (84 percent), up from 76 percent in 1983.

Industrials with under $200 million in revenues lead all respondents in adhering to the annual fee only (19 percent). But overall, only 10 percent use this method, down from 13 percent in 1983 and from 25 percent in 1973.

At three percent, per-meeting fee only remains the most infrequent mode of compensation.

Annual Plus Per-Meeting Fee (85 percent of the respondents)

For all outside directors compensated on an annual plus per-meeting basis, the average earnings reported were $18,800, up from $18,090 last year. Compensation has risen 29 percent from the $14,570 average of five years ago. Commensurately, the percentage of directors earning under $11,000 has decreased substantially to 12 percent, down from 35 percent of reporting respondents five years ago. At the same time, the percentage of those earning $25,000 and over has more than tripled from six percent five years ago to 20 percent in 1984. In one year alone, the number of respondents reporting compensation of $25,000 or more increased from 15 percent (1983) to 20 percent (1984) (Table 6B).

The $18,800 total average annual compensation for all companies comprises an annual fee of $12,400 and a per-meeting fee of $724, up from an $11,700 annual fee and a $717 per-meeting fee last year (Table 6B).

As in the past, the larger the company, the higher the compensation. Directors of billion dollar industrial corporations earn an average of $23,300, up from $22,690 last year; directors of the $5 billion and over companies earned an average of $26,300, 19 percent more than reported five years earlier (Table 6C).

However, in a one-year period, directors of companies with revenues of under $200 million increased their average compensation package by 33 percent, from $9,270 in 1983 to $12,300 in 1984.

Retailers made the largest gains over the past five years, up 62 percent to $21,400. This is a departure from past years in which banks and financial institutions have consistently made the greatest gains.

In 1984, the upper quartile average for all responding directors was $27,100, with averages ranging from $14,100 for industrials in the $200-$399 million category to $36,100 for $5 billion and over companies (Table 6C). The average upper quartile for all billion dollar companies was $32,100.

Annual Fee Only (10 percent of the respondents)

The average earnings of outside directors receiving only an annual fee increased 30 percent over the past five years, from $12,850 to $16,700. However the average annual fee this year of $16,700 was only 4 percent higher than the average fee reported in 1983 (Table 6D).

Companies with revenues under $1 billion paid only an annual fee more than twice as often as billion dollar companies, although their average annual fee was somewhat lower, $17,800 compared with $21,700.

Per-Meeting Fee Only (Three percent of the respondents)

The smallest category, respondents who compensate for meetings only, reported an average fee of $810, a 58 percent leap above last year's average of $514.

7. Committee Compensation (Table 7)

Nearly 90 percent of all participants offer additional compensation to their outside directors for serving on committees (Table 7A).

The per-meeting fee continues to predominate, but the number of companies paying in this manner has been declining since 1980, when 65 percent of the respondents reported its use. Now only 57 percent of our participating companies compensate committee members with per-meeting fees. On the other hand, the percentage of companies paying an annual plus per-meeting fee for committee service has climbed continuously from 26 percent reported five years ago to 36 percent in 1984. Only seven percent of companies surveyed pay committee members an annual fee only (Table 7B).

Committee member fees average $730 per meeting ($810 for billion dollar corporations). Committee chairmen receive somewhat higher compensation, an average of $756 per meeting ($823 in billion dollar corporations.)

8. Additional Compensation Information (Table 8)

Forty-two percent of participants indicate that they increased compensation for their outside directors during the past year, only two percent more than in 1983, but significantly fewer than the 54 percent who did so five years ago. In 1984, the average increase was $2,710, a small dip from last year's average of $2,850. Billion dollar companies maintain their lead with a $2,950 increase in compensation in 1984, but it was less than the $3,370 increase received the year before. Smaller companies (under $200 million) posted the greatest increase (78 percent), from $1,390 in 1983 to $2,480 in 1984 (Table 8A). Twenty-two percent of respondents project a fee increase for the coming year, in the range of $2,000 to $3,000 (Table 8B).

Sixty-nine percent of this year's participants believe that outside directors are adequately compensated, down from 91 percent reported in 1983. An unusually high percentage of participants did not respond to the question (26 percent), as compared with a no response rate of only one percent in 1983. Perhaps this is a reaction to the questions raised by recent publicity given to the role of boards of directors in situations where companies confront serious problems.

Only 64 percent of retailers believe that directors are adequately compensated, compared with 97 percent in 1983; and yet the retail

industry as a group registered the biggest gains in 1984 board compensation.

Twenty-three percent of all respondents have outside directors who receive special consulting fees, down from 26 percent last year.

The highest paid outside directors average $24,440 this year for all board services exclusive of any consulting fees, a six percent increase over last year's average of $23,100 and 32 percent more than the $18,530 of five years ago. Twenty-five percent of the largest industrial companies ($5 billion and over) compensate their highest paid outside directors with payment in excess of $40,000. The upper quartile average for all directors is $41,600, up from $39,270 last year and $29,660 five years ago (Table 8C).

In 1984, 38 percent of respondents reported that their board chairman has primary responsibility for establishing board compensation, up from 34 percent the year before. The compensation committee establishes renumeration for 24 percent of the participating companies, and in 26 percent of the cases, the entire board is responsible (Table 8D). Nearly 90 percent of the respondents have a procedure whereby the board annually reviews and establishes appropriate compensation levels for the chief executive officer. Eighty-three percent report a board review of the compensation for other senior officers.

Benefits

Benefits continue to be a significant feature of compensation plans of outside directors. Accident insurance (47 percent), travel expense reimbursement for spouses (27 percent) and life insurance (23 percent) are all growing in popularity (Table 8E). Matching educational gifts are becoming increasingly common, rising to 48 percent from 44 percent in 1983 and 40 percent in 1982. Travel expense reimbursement (provided by 91%) and directors' liability insurance (provided by 87 percent of the respondents) remain widely offered.

The option of deferring board fees until retirement is offered by a majority of responding companies (60 percent) (Table 8E). Eleven percent of the companies that do not have a deferment plan contemplate establishing one, as compared with six percent indicating this intention in 1983. It appears that each year this option is becoming more widely accepted and put into practice. While only 26 percent of the smaller companies (under $200 million) have an income deferral plan, 76 percent of the largest companies ($5 billion and over) report one.

In 1984, 20 percent of all respondents provided retirement benefits. Thirty percent of the billion dollar corporations, as compared with five percent of companies with revenues under $200 million, reported having a retirement program. In all cases, length of board service was a factor in determining

the extent of retirement benefits. The average length of service required to qualify for retirement plans was six years.

Stock Ownership

Seventy-six percent of respondents and 83% of billion dollar companies stated that stock options should not be part of a director's compensation, although 33 percent of company bylaws allow for them. Nevertheless, about 80 percent of participating firms of all sizes believe that all directors should own some company stock. Of these, 24 percent believe directors should own approximately 500 shares, while 22 percent feel that roughly 100 shares are sufficient. Nineteen percent responded that board members should own over 1,000 shares. Companies with revenues of $600 million and above favored the 100 share figure, while smaller companies opted for larger blocks, either of 500 or over 1,000 shares. Only eight of the 492 who responded to the question of stock ownership report that outside directors own no stock in their companies. The average number of shares owned by outside directors ranged from zero to well over 100,000 because some blocks of stock are held by outside directors who are heirs or members of the founding family. However, well over a third of the respondents (37 percent) report that their outside directors own one to 3,000 shares, with nearly 20 percent owning between 500 and 1500 shares.

9. Board Practices and Policies (Table 9)

Study respondents average eight regular board meetings per year (Table 9A). Financial institutions meet most frequently, averaging nine times per year. Fifty-one percent average at least one board meeting away from their corporate headquarters, and eight percent hold at least one of these meetings outside the U.S.

After climbing sharply during the past six years, time spent on board-related business took a small dip in 1984, averaging a total of 121 hours, including time for review, preparation and travel in addition to meetings (Table 9B).

Twenty-five percent of respondents reported devoting more than 130 hours to board-related activities.

Interestingly, directors of the under $200 million dollar companies increased the amount of time spent on board activities from 78 hours in 1983 to 102 hours, while the average time investment for directors of billion dollar companies decreased somewhat to 148 hours from 152 hours in 1983. Banking and financial institutions slightly increased time spent on board activities. The $5 billion and over corporations demand over 160 hours of their outside directors, the equivalent of four 40-hour work weeks (Table 9B).

Overall, the larger the company, the more time is devoted to board-related business.

If compensated on an annual plus per-meeting fee basis, outside directors earned $155 per hour this year, up from $146 last year. The average number of hours devoted to board activities decreased in 1984, while average director compensation for the year increased. The highest hourly rate, $196 per hour, went to directors of retailing companies. Insurance companies paid the lowest, $148 per hour, but this was an increase from last year's hourly rate of $130.

Eighty-nine percent of all respondents and 94% of the $5 billion dollar companies allow CEO's to sit on outside corporate boards. Of the few who impose limits, most say the CEO should sit on no more than three boards.

For senior executives other than the CEO, respondents stated that generally they should not hold more than three board directorships, but limiting the number for these officers was not a critical factor.

Seventy-three percent of respondents have a mandatory retirement age for directors. Only 49 percent of companies with revenues under $200 million have a mandatory retirement age, in contrast to 83 percent of billion dollar companies and 87 percent of $5 billion and over companies. For the ninth consecutive year, the average retirement age for outside directors has remained unchanged at 70. The average age for inside directors is 68, as compared with 67 years of age in 1983. Four percent of respondents state that their mandatory retirement age policy is under review.

10. Locating Outside Directors (Table 10)

Outside directors resigned from the boards of 36 percent of responding companies during the past year. Retirement was again cited (by 71 percent) as the major reason for resignation, increasing by six percent over 1983. Time demands were given by 11 percent of the respondents as a reason for resignation. Mergers and disagreements over policy were two reasons newly cited by three percent and two percent of respondents, respectively.

Forty-four percent of the respondents added one or more new outside directors to their boards during the past year, compared with 47% in 1983. Twenty-three percent named new inside directors (Table 10A).

Board vacancies continue to be filled predominantly through recommendations by the chairman (78 percent) and by other board members (75 percent). Fifty-seven percent used the nominating committee to identify and select new directors; that percentage rose to 65 percent among the billion dollar corporations and to 74 percent among $5 billion corporations.

Recommendations of other corporate officers (38 percent) and referrals from executive acquaintances (12 percent) decreased from 54 percent and 24 percent respectively, in the past five years. The use of executive search firms was cited by nine percent of the total respondents, and 15 percent of the largest companies ($5 billion and over) as a means of finding new board members (Table 10B).

Selection Criteria

Seventy-three percent of the respondents cited corporate experience as the primary consideration for selecting prospective directors. Specific industry experience (25 percent) and functional experience (25 percent) are also important qualities sought in prospective directors. Prestige was mentioned by only six percent compared with 13 percent in 1983, thus further discrediting the concept of an honorific or "rubber stamp" board (Table 10C). Fully employed executives are preferred by 51 percent of the respondents. This preference was particularly true of financial institutions (69 percent).

Seventeen percent of this year's respondents state that board candidates declined to serve on their boards (Table 10D). Retail companies experienced the most refusals (24 percent). However, the average number of refusals for retailers has decreased from a high of 33 percent in 1983.

Time commitment, cited by 56 percent of the respondents, is the predominant reason given for declining an invitation to serve on corporate boards, but it was much less of a factor than in 1983 when it was the primary cause for 70 percent. Conversely, 65 percent of the giant corporations with revenues of more than $5 billion mentioned time commitment as the primary reason for declining to serve on boards, more than twice as often as in 1983 when the percentage was only 30. Increased liability was cited by four percent of the respondents, compared with 0 in 1983 (Table 10D).

Thirty-eight percent of all respondents expect a board vacancy this year, about the same level as last year.

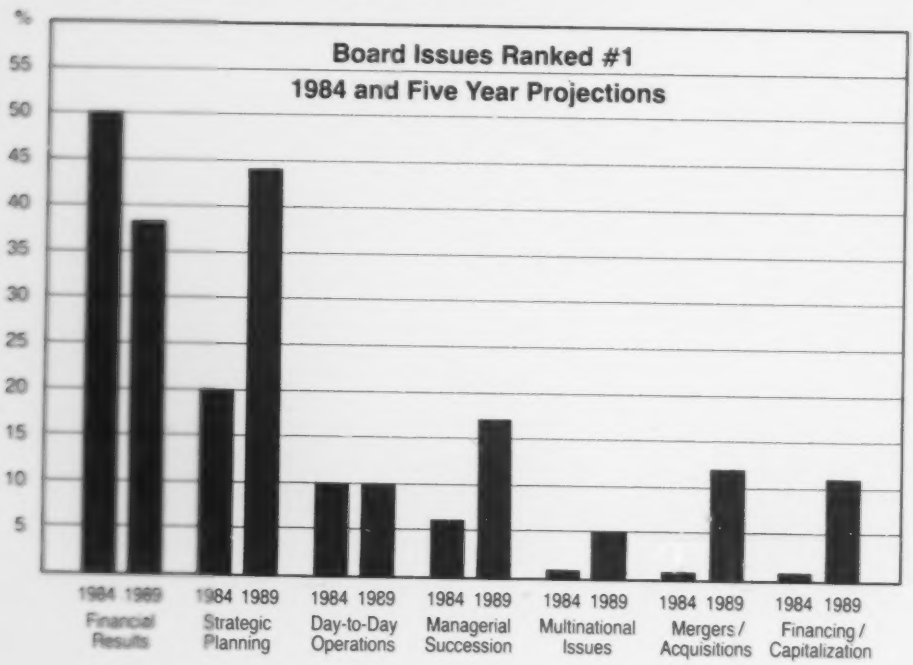
11. Board Issues (Table 11)

While financial results is the single most significant issue for all companies (cited by 50 percent as ranking first), other issues show a variance according to size. Larger companies are more concerned with strategic planning and succession than smaller companies for whom financing/capitalization and mergers/acquisitions are more important factors. For example, over 32 percent of the $5 billion plus corporations cite succession as one of their top three priorities, whereas it was mentioned by only 23 percent of companies with revenues under $1 billion. Among the $5 billion plus corporations there is a marked drop in concern about

mergers and acquisitions since last year, from 25 percent to only 13 percent, while the overall average of 20 percent shows only a small rise from the 18 percent who cited it in 1983 as one of their top three concerns.

However, projections as to the importance of these issues five years from now showed a striking turnaround in priorities. Strategic planning outpaced financial results and was ranked first by 44 percent of the total respondents, compared with only 19 percent last year. (The increase was across the board, all companies, all industries.) Managerial succession also increased in importance, rising from five percent to 17 percent since our Eleventh Annual Study. Mergers/acquisitions and financing/ capitalization jumped from one percent to 12 percent and 11%, respectively.

Presently, financial results continue to preoccupy the board most, accounting for an average 26 percent of meeting time. The respondents estimate that 18 percent of board time is devoted to day-to-day operations, followed by strategic planning (15 percent).



12. Participating Companies (Table 12)

—Size of Participating Companies (Table 12A)
—Stock Exchange of Participating Companies (Table 12B)
—Type of Participating Companies (Table 12C)

TABLE 1—PRESENT NUMBER OF BOARD MEMBERS

What is the present number of board members?

Type and Size of Company	Average Number Inside Directors	Average Number Outside Directors	Average Number Directors
Industrials			
Under $200 million	3	7	10
$200 million-$399 million	3	7	10
$400 million-$599 million	3	8	11
$600 million-$999 million	4	8	12
$1 billion-$2.999 billion	4	9	13
$3 billion-$4.999 billion	4	10	14
$5 billion and over	4	11	15
Banks and other financial institutions	4	15	19
Insurance companies	4	12	16
Retailers	5	11	16
Service companies	3	10	13
Average	4	9	13

TABLE 2—OUTSIDE DIRECTORS ON THE BOARD

What is the minimum percentage of outside directors preferred?

Minimum %	% 1980	% 1983	% 1984
25% and under	4.7%	3.2%	3.2%
26%-50%	16.5%	10.8%	8.7%
51%-75%	45.3%	44.4%	47.1%
76%-85%	29.0%*	37.0%*	25.3%
86% and over	—	—	10.3%
No response	4.5%	4.6%	5.4%
TOTAL	100.0%	100.0%	100.0%

*Figure represents 76% and over.

└ FIVE-YEAR TREND ┘

TABLE 3—CHAIRMAN ALSO CEO, CEO ALSO COO

Is the Chairman of the Board also the Chief Executive Officer?
Is the Chief Executive Officer also the Chief Operating Officer?

	Chairman/CEO %	CEO/COO %
Yes	76.9%	42.3%
No	20.4%	55.5%
No response	2.7%	2.2%
TOTAL	100.0%	100.0%

TABLE 4—BOARD COMPOSITION

4A. Are one or more of the following individuals on the board?

	% 1980	% 1983	% 1984
Senior executive (other companies)	88.2%	89.4%	87.5%
Retired or previously employed corporate officer	48.4%	46.9%	46.0%
Commercial banker	37.8%	33.2%	31.3%
Attorney (provides legal services for the company)	32.1%	30.2%	28.4%
Academician	48.4%	51.7%	51.5%
Investment banker	26.0%	22.9%	24.3%
Major shareholder (not officer of the company)	30.2%	30.4%	29.2%
Attorney (does not provide legal services for the company)	32.2%	34.3%	33.5%
Former government official	23.8%	30.2%	30.8%
Female	36.1%	43.4%	44.7%
Ethnic minority member	16.7%	25.9%	26.2%
Non-U.S. citizen	12.8%	15.4%	14.8%
International executive (American)	6.6%	8.1%	7.6%
"Professional" director	18.1%	18.2%	17.9%
Retired executive (other companies)	62.2%	70.0%	69.4%

└ FIVE-YEAR TREND ┘

4B. From which of the above functions are most women and ethnic minorities drawn?

Function	% Women	% Minorities
Senior executives (other company)	20.5%	25.9%
Academicians	23.3%	24.7%
Former government officials	11.3%	12.0%
Attorneys (do not provide legal services)	8.5%	14.5%
Major shareholders (not officers of the company)	8.8%	4.8%

TABLE 5—COMMITTEES

5A. Which of the following standing committees does the board have?

Committee	% 1980	% 1983	% 1984
Audit	98.3%	99.2%	97.6%
Compensation	83.5%	84.6%	85.5%
Executive	77.3%	80.4%	79.9%
Nominating	52.4%	59.4%	61.5%
Finance	32.3%	34.3%	37.8%
Benefits	29.9%	34.5%	33.6%
Public affairs	9.5%	12.6%	11.5%
Corporate ethics	6.6%	5.8%	7.0%

└ FIVE-YEAR TREND ┘

5B. What is the composition of each committee?

Committee	Average Number Inside Directors	Average Number Outside Directors	Average Number Directors
Audit	0	4	4
Compensation	0	4	4
Executive	2	3	5
Nominating	1	4	5
Finance	2	4	6
Benefits	1	3	4
Public affairs	1	4	5
Corporate ethics	1	4	5

5C. How many committee meetings were held during the past 12 months?

Committee	1980 Average Number of Meetings	1983 Average Number of Meetings	1984 Average Number of Meetings
Audit	4	3	3
Compensation	4	4	4
Executive	6	4	3
Nominating	2	2	2
Finance	6	4	4
Benefits	3	3	3
Public affairs	3	3	3
Corporate ethics	2	2	3

└ FIVE-YEAR TREND ┘

TABLE 6—COMPENSATION

6A. How are board members compensated?

Compensation	% 1980	% 1983	% 1984
Annual plus per-meeting fee (see Table 6B and 6C for amounts)	77.8%	84.5%	85.0%
Annual fee only (see Table 6D for amounts)	16.6%	12.8%	10.0%
Per-meeting fee only	4.2%	1.7%	3.2%
No response	1.4%	1.0%	1.8%
TOTAL	100.0%	100.0%	100.0%

└ FIVE-YEAR TREND ┘

6B. Annual Plus Per-Meeting Fee

Annual Fee Amount	% 1980	% 1983	% 1984
Under $5,000	15.3%	4.9%	5.5%
$5,000-$6,999	19.2%	10.2%	8.6%
$7,000-$10,999	34.2%	30.4%	26.0%
$11,000-$13,999	16.8%	18.2%	18.2%
$14,000 and over	14.5%	35.7%	41.3%
Unspecified	—	0.6%	0.4%
TOTAL	100.0%	100.0%	100.0%

└ FIVE-YEAR TREND ┘

Average Annual Fee		$11,700	$12,400

PLUS

Amount Per Meeting	% 1980	% 1983	% 1984
Under $250	4.0%	2.4%	0.8%
$250-$499	27.9%	11.6%	9.1%
$500-$599	40.2%	34.3%	27.7%
$600-$799	27.7%	30.0%	37.7%
$800 and over	—	21.0%	24.3%
Unspecified	0.2%	0.7%	0.4%
TOTAL	100.0%	100.0%	100.0%

└ FIVE-YEAR TREND ┘

Average Per-Meeting Fee		$717	$724

COMPENSATION (continued)

EQUALS

Total Average Annual Compensation	% 1980	% 1983	% 1984
Under $7,000	11.3%	2.2%	1.9%
$7,000-$10,999	23.7%	13.6%	10.1%
$11,000-$13,999	21.0%	15.1%	13.4%
$14,000-$16,999	13.4%	18.9%	17.1%
$17,000-$19,999	12.1%	14.9%	16.1%
$20,000-$24,999	11.4%	20.6%	21.8%
$25,000 and over	6.0%	14.7%	19.6%
Unspecified	1.1%	—	—
TOTAL	100.0%	100.0%	100.0%
Average	$14,570	$18,090	$18,800

FIVE-YEAR TREND

6C. Annual Plus Per-Meeting Fee (continued)

Type and Size of Company	1980 Average Compensation	1984 Average Compensation	1984 Upper Quartile Average
Industrials			
Under $200 million	$ 9,260	$12,300	$18,200
$200 million-$399 million	$11,020	$13,000	$14,100
$400 million-$599 million	$10,770	$15,200	$20,300
$600 million-$999 million	$12,980	$17,900	$24,800
$1 billion-$2.999 billion	$18,170	$20,300	$27,500
$3 billion-$4.999 billion	$21,610	$24,400	$29,500
$5 billion and over	$22,080	$26,300	$36,100
Banks and other financial institutions	$11,990	$17,500	$27,000
Insurance companies	$14,140	$16,400	$27,300
Retailers	$13,230	$21,400	$31,100
Service companies	—	$18,900	$27,900
Average	$14,570	$18,800	$27,100

FIVE-YEAR TREND

6D. Annual Fee Only

Annual Fee Amount	% 1980	% 1983	% 1984
Under $7,000	18.8%	5.1%	4.8%
$7,000-$9,999	10.4%	11.5%	11.1%
$10,000-$11,999	12.5%	15.4%	9.5%
$12,000-$13,999	13.5%	5.1%	11.1%
$14,000-$15,999	17.7%	15.4%	11.1%
$16,000-$19,999	27.1%*	15.4%	17.5%
$20,000 and over	—	32.1%	34.9%
TOTAL	100.0%	100.0%	100.0%
Average	$12,850	$16,100	$16,700

*Figure represents $16,000 and over.

FIVE-YEAR TREND

TABLE 7—COMMITTEE COMPENSATION

7A. Are outside directors paid an extra fee for serving on a committee?

	% 1980	% 1984
Yes	86.1%	88.2%
No	12.2%	9.0%
No response	1.7%	2.8%
TOTAL	100.0%	100.0%

FIVE-YEAR TREND

7B. If yes, how are they compensated?

	% 1980	% 1984
Per-meeting fee only	64.5%	57.1%
Annual plus per-meeting fee	26.2%	35.9%
Annual fee only	9.1%	6.6%
No response	0.2%	0.4%
TOTAL	100.0%	100.0%

FIVE-YEAR TREND

TABLE 8—ADDITIONAL COMPENSATION INFORMATION

8A. Has board compensation been raised within the last 12 months?

	% 1983	% 1984
Yes	39.8%	41.9%
No	59.7%	53.9%
No response	0.5%	4.2%
TOTAL	100.0%	100.0%

If yes, by how much?

Type and Size of Company	1983 Increase	1984 Increase
Industrials		
Under $200 million	$1,390	$2,480
$200 million-$399 million	$2,100	$1,970
$400 million-$599 million	$2,430	$2,220
$600 million-$999 million	$2,430	$3,110
$1 billion-$2.999 billion	$3,540	$3,220
$3 billion-$4.999 billion	$3,030	$2,900
$5 billion and over	$3,340	$2,720
Banks and other financial institutions	$3,000	$2,830
Insurance companies	$2,500	$2,950
Retailers	$3,333	$2,520
Service companies	—	$2,580
Average	$2,850	$2,710

8B. Do you contemplate raising board compensation in the next year?

	% 1983	% 1984
Yes	25.5%	21.6%
No	71.7%	71.6%
No response	2.8%	6.8%
TOTAL	100.0%	100.0%

8C. How much did the highest paid outside director receive in 1984 for all board service activities exclusive of any consulting fees?

Type and Size of Company	1980 Average Compensation	1984 Average Compensation	1984 Upper Quartile Average
Industrials			
Under $200 million	$12,750	$14,650	$23,600
$200 million-$399 million	$14,230	$16,211	$28,000
$400 million-$599 million	$13,160	$18,630	$25,600
$600 million-$999 million	$16,210	$23,110	$37,800
$1 billion-$2.999 billion	$23,180	$25,200	$36,000
$3 billion-$4.999 billion	$25,390	$32,600	$43,800
$5 billion and over	$30,780	$34,300	$69,100
Banks and other financial institutions	$18,310	$22,830	$38,100
Insurance companies	$17,920	$24,890	$48,100
Retailers	$14,900	$30,390	$54,200
Service companies	—	$27,090	$46,000
Average	$18,530	$24,440	$41,600

FIVE-YEAR TREND

8D. Who is primarily responsible for establishing board compensation?

	%
Chairman	37.8%
Entire board	26.4%
Compensation committee	24.2%
Combination of above	8.1%
Executive committee	3.5%

8E. What benefits are included in the compensation plan for outside directors?

	%
Travel expense reimbursement	90.8%
Directors' liability insurance	87.0%
Deferral of board fees until retirement	60.3%
Matching educational gifts program	48.2%
Accident insurance	47.2%
Travel expenses for spouse	26.7%
Life insurance	22.9%
Retirement income plan	19.9%
Pension plan	12.8%
Stock options	1.1%

TABLE 9—BOARD PRACTICES AND POLICIES

9A. How many regular board meetings are held during the fiscal year?

Meetings Per Year	%
Under 5	17.7%
5-6	27.2%
7-9	20.2%
10-12	30.5%
13 and over	1.6%
No response	2.8%
TOTAL	100.0%
Average	8 meetings

9B. How many hours (estimated) do directors spend annually on board matters, including review, preparation, meetings and travel?

Number of Hours	% 1980	% 1984
Under 40	8.5%	2.7%
41 to 70	16.8%	19.3%
71 to 100	20.3%	22.6%
101 to 130	13.0%	16.4%
131 to 160	10.6%	9.0%
161 to 190	6.6%	7.1%
191 and over	10.6%	8.7%
No response	13.6%	14.2%
TOTAL	100.0%	100.0%
Average	122 hours	121 hours

FIVE-YEAR TREND

Hours (continued)

Type and Size of Company	Average Number of Hours	Upper Quartile Average
Industrials		
Under $200 million	102	168
$200 million-$399 million	93	143
$400 million-$599 million	102	165
$600 million-$999 million	108	177
$1 billion-$2.999 billion	139	196
$3 billion-$4.999 billion	141	213
$5 billion and over	164	224
Banks and other financial institutions	114	189
Insurance companies	111	170
Retailers	109	170
Service companies	126	196
Average	121	190

TABLE 10—LOCATING OUTSIDE DIRECTORS

10A. How many new directors were added during the past year?

Number Added	% Inside Directors	% Outside Directors
None	44.4%	38.2%
One	17.7%	27.6%
Two	3.8%	11.5%
Three or more	1.7%	4.5%
No response	32.4%	18.2%
TOTAL	100.0%	100.0%

10B. How are outside directors located for the board?

	% 1980	% 1983	% 1984
Recommendation of chairman	79.2%	77.8%	78.0%
Recommendation of board members	78.9%	73.2%	74.7%
Nominating committee	54.2%	54.3%	56.9%
Recommendation of other corporate officers	54.2%	37.5%	38.2%
Referral from executive acquaintances	24.1%	9.7%	11.5%
Executive search	7.6%	9.7%	9.1%
Bank referral	1.6%	—	1.2%
Referral from attorneys	2.1%	—	1.2%

FIVE-YEAR TREND

10C. What are the primary considerations in asking a prospective director to sit on the board?

	%
Corporate experience	73.2%
Specific functional experience	24.7%
Specific industry experience	24.7%
Prestige	5.7%

10D. Have any prospective directors declined an invitation to serve on the board during the past year?

	% 1980	% 1983	% 1984
Yes	22.0%	15.8%	16.9%
No	74.3%	82.6%	73.5%
No response	3.7%	1.6%	9.6%
TOTAL	100.0%	100.0%	100.0%

If yes, what are the predominant reasons?

	% 1980	% 1983	% 1984
Time commitment	80.3%	69.5%	56.1%
On too many boards	—	22.1%	25.2%
Conflict of interest	—	20.0%	16.8%
Low compensation	0.8%	—	—
Increased legal liability	15.0%	—	3.7%
Other	3.9%	—	5.6%

TABLE 11—ISSUES

What is the relative importance of each of the following issues?

	% Ranking #1	% Ranking #1 or #2	% Ranking #1, #2 or #3
Financial results	50.4%	69.7%	78.2%
Strategic planning	20.4%	45.0%	61.6%
Financing/Capitalization	1.4%	11.7%	30.7%
Day-to-day operations	9.6%	21.8%	29.9%
Managerial succession	5.7%	13.9%	22.0%
Mergers/Acquisitions	1.3%	7.1%	20.4%
Corporate ethics	0.5%	2.6%	5.4%
Shareholder relations	—	1.1%	3.5%
Multinational issues	0.6%	1.9%	4.4%
Government relations	0.3%	2.5%	4.9%
Public relations	—	0.3%	0.6%
Board compensation	—	—	—
Executive compensation	0.2%	1.1%	4.6%
Growing influence of institutional investor	0.2%	0.7%	1.2%

TABLE 12—PARTICIPATING COMPANIES

12A. Size of Participating Companies

	No. of Companies	%
Industrials		
Under $200 million	40	6.3%
$200 million-$399 million	70	11.1%
$400 million-$599 million	43	6.8%
$600 million-$999 million	62	9.8%
$1 billion-$2.999 billion	87	13.7%
$3 billion-$4.999 billion	45	7.1%
$5 billion and over	77	12.2%
Banks and other financial institutions	72	11.4%
Insurance companies	51	8.1%
Retailers	25	3.9%
Service companies	61	9.6%
TOTAL	633	100.0%

12B. Stock Exchange of Participating Companies

	%
New York Stock Exchange	71.8%
American Stock Exchange	5.9%
Over-the-counter	13.2%
Other (private, mutual)	9.1%
TOTAL	100.0%

12C. Type of Participating Companies*

	%
Industrial	67.0%
Banks and other financial institutions	11.4%
Insurance	8.1%
Retail	3.9%
Service (new category)	9.6%
TOTAL	100.0%

**This year 1,000 companies were asked to participate. There were 633 responses available for tabulation at our deadline. The companies asked to participate included the Fortune 500, the Fortune 100 major service companies, the Fortune 50 major banking institutions, 50 major insurance companies, 50 major diversified financial companies, 50 major retailers, 50 major transportation companies and 150 selected smaller companies.*

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Board of Directors
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KORN/FERRY INTERNATIONAL

TABLE OF CONTENTS

1 Introduction
3 Summary of Findings
9 Statistical Tables
Participating Companies
Number of Directors
Chairman Also CEO, CEO Also COO
10 Board Composition
11 Committees
12 Compensation
13 Additional Compensation Information
14 Board Practices and Policies
Locating Outside Directors
15 Issues
17 Worldwide Offices, United States
Worldwide Offices, International

KORN/FERRY INTERNATIONAL
TWELFTH ANNUAL BOARD OF DIRECTORS STUDY OF BILLION DOLLAR CORPORATIONS

Introduction

As part of our annual Board of Directors Study, we make a special analysis of the statistical data pertaining to companies with revenues of $1 billion and over.

Since Korn/Ferry's first study in 1973, we have witnessed dramatic changes in the structure, policy and practices of corporate boards, and clearly, the biggest corporations have been the trend setters. Now composed largely of outside senior executives with strong operating experience, these boards take a more activist stance than ever before, and they are being held increasingly accountable for the actions of the corporations they serve.

Our latest survey was answered by a record 633 out of 1,000 U.S. corporations, of which 242 were billion dollar industrial and service companies. This figure represents a 13 percent increase in participation by the giants of American industry. Within that group, the number of $5 billion plus companies jumped by 47 percent. This year's unusually high response rate tells us that corporations appear to be more anxious than ever to compare notes, assemble facts and get a general consensus of what's going on in the board room. Directors are increasingly in the public spotlight and it is clear that the key issue is accountability.

This year the billion dollar corporations have an average of four inside directors and 10 outside directors, compared with four inside and only nine outside for all respondents. Eighty-eight percent of the billion dollar companies express a preference for a majority of outside directors.

Billion dollar corporations continue to lead the way in restructuring boards to be more clearly and genuinely independent from corporate management. They draw more heavily than all other groups from the ranks of senior executives of other companies, retired executives of other companies and academicians.

In recognition of increased public scrutiny and the burgeoning role of regulation, former government officials are more and more likely to be found on the boards of billion dollar companies (46 percent). Fully 57 percent of the $5 billion companies report seating a former government official.

Women and minorities are strongly represented, 53 and 35 percent respectively, for the $1 billion to $3 billion companies while a record 68 percent of $5 billion enterprises now have women directors.

On the other hand, groups more likely to be aligned with management are disappearing from the ranks of billion dollar boards. Representation is down among previously employed corporate officers, commercial bankers and lawyers who provide legal services for the company.

There is also evidence that the largest companies are extending and redefining their use of committees. The number of meetings for audit and executive committees is down from our study of five years ago. At the same time, nominating, finance and public affairs committees appear to be assuming more responsibility. In addition, larger companies report that they spend more time on committee matters than do smaller ones.

In looking to the future, companies are more and more frequently reconsidering their priorities. While most feel that financial results is the single most important issue facing the board today, the new economic environment with its fierce competition for market share worldwide will push strategic planning to the top of the list in five years.

Last year 90 percent of the billion dollar companies stated that, in general, they believed their outside directors were adequately compensated. This year only 70 percent believed this to be the case. Furthermore, the no response rate to this question was high, indicating uncertainty about the proper level of compensation at a time when directors are being required to play an ever more active role.

Compensation levels for directors of large corporations have been traditionally and understandably higher than those of smaller companies. However, rates of increase have been somewhat more modest, only 17 percent over the past five years, compared with 33 percent for smaller companies (under $200 million). The use of perks has been on the rise. Fees deferred until retirement, matching educational gift plans, accident and life insurance, and travel expenses for spouses are almost the rule.

These are some of the important trends that we found among the billion dollar corporations that participated in our survey. A more detailed discussion follows in the Summary of Findings.

Lester B. Korn
Chairman

Richard M. Ferry
President

SUMMARY OF FINDINGS

On a question-by-question basis, the following findings are directly related to billion dollar corporations (Table 1). When appropriate, key comparisons are made between this group and all participants in our study.*

1. Size of Board (Table 2)

Billion dollar corporation boards continue to number an average of 14 directors, one more than the 13 reported for all respondents. The average for the largest companies, $5 billion and over, however, decreased this year, falling back to the previous year's level of 15. Banks and other financial institutions continue to maintain the largest boards, averaging 19 directors.

2. Inside Directors vs. Outside Directors (Table 2)

Outside directors comprise the majority of board members among billion dollar corporations, as they do for all respondents as a group.

Billion dollar corporations have an average of four inside directors and ten outside directors, compared with four inside and nine outside directors for all respondents. Eighty-eight percent of the billion dollar boards express a preference for a majority of outside directors.

3. Is the Chairman also the CEO? Is the CEO also the COO? (Table 3)

This year, 82 percent of the billion dollar corporations report that their chairman also serves as chief executive officer, up from 79 percent last year, and higher than the average of 77 percent among all corporations surveyed.

Only 40 percent of the billion dollar respondents have a chief executive officer who also acts as chief operating officer. This percentage is slightly below the 42 percent for all respondents who report this relationship.

4. Board Composition (Table 4)

The trend toward independent outside directors is especially pronounced among the billion dollar companies. Outside directors originate most often from the following categories: senior executives of other companies (91 percent), retired executives of other companies (80 percent) and academicians (65 percent) (Table 4A).

Directors from these groups are valued because they are considered independent of corporate management. Further evidence of the trend toward more independent boards lies in the marked decrease over the past five years in representation of retired or previously employed

**This year 633 corporations responded to our Annual Study. Industrial and service corporations account for 77 percent of the total, of which 242 companies have revenues in excess of $1 billion. Banks and other financial institutions account for 11 percent, insurance companies for eight percent and retailers for four percent.*

corporate officers and commercial bankers—groups tending to be more closely aligned with management.

Billion dollar companies are more likely to include former government officials on their boards: 46 percent for $1 billion plus and 57 percent for $5 billion and over companies, compared with 31 percent for all respondents, and only 11 percent for smaller industrials with revenues under $200 million. In the past five years the percentage of billion dollar corporations with former government officials serving as directors has risen five percent (Table 4A).

Women and ethnic minorities now constitute major sources of outside directors for billion dollar corporations. This year, 53 percent report women on their boards, up eight percent from five years ago. Sixty-eight percent of the $5 billion and over companies have women directors, up from 59 percent five years ago. Ethnic minorities now sit on 35 percent of the billion dollar boards, up ten percent over the past five years (Table 4A). Women and ethnic minorities are primarily academicians, senior officers of other companies, former government officials and attorneys who do not provide legal services for the company (Table 4B).

The billion dollar corporations seek executives with considerable corporate experience, a primary consideration for 73 percent of the respondents; and they report a higher percentage of senior and retired executives from other companies than any of the other groups in the study.

5. Committees (Table 5)

Among the billion dollar corporations, audit (98 percent), compensation (85 percent) and executive (84 percent) continue to be the most prevalent committees. The percentage of companies using executive committees is equal to last year and well above the 80 percent reported five years ago. Additionally, the use of finance and benefits committees is on the rise. These two committees are found more frequently among the billion dollar corporations than in the total companies surveyed (Table 5A).

Nearly three-quarters of the billion dollar corporations have a nominating committee, up from 69 percent reported in our Eighth Annual Study (Table 5A). Of these corporations 51 percent use it for board committee appointments. Forty-two percent indicate that the nominating committee plays a role in the management succession process. Other committees that play a significant role in the management selection process among the billion dollar companies are the compensation and the executive committees (41 percent and 20 percent, respectively).

Billion dollar corporations are among the leaders in the use of the finance committee. Fifty-one percent now have a finance committee, compared with 38 percent for all respondents (Table 5A).

Committee composition has not changed over the past three years. Committees have an average of four to six directors. The executive and

the finance committees are the largest. The audit, compensation and benefits committees are composed entirely of outside directors (Table 5B).

The average number of meetings held per year for the audit, compensation and executive committees (the most prevalent committees) has decreased since 1980, while the other committees meet at the same frequency as before. Notably, the number of executive committee meetings has dropped from seven to three (Table 5C).

6. Compensation (Table 6)

Eighty-seven percent of the billion dollar respondents compensate outside directors on an annual plus per-meeting fee basis, up from 84 percent last year. Correspondingly, the percentage of billion dollar corporations paying an annual fee only has decreased to 11 percent from 14 percent in 1983. Only one percent continue to compensate directors with per-meeting fees only.

Annual Plus Per-Meeting Fee (87 percent of the respondents)

This year, outside directors of the billion dollar companies that pay an annual plus per-meeting fee earned an average total compensation of $23,300, a three percent increase from last year but a 17 percent increase over the past five years. This figure is also considerably more than the $18,800 averaged by all respondents. The $23,300 compensation comprises an average annual fee of $15,500 and an average per-meeting fee of $767. Directors of the $5 billion and over companies earned an average of $26,300, a 19 percent increase compared with our Eighth Annual Study.

The upper quartile average for the billion dollar companies, included here for comparative purposes, ranges from $27,500 to $36,100, with an average of $32,100, 18 percent more than the $27,100 average for all respondents.

The disparity between compensation for billion dollar corporations versus total respondents grew this year, with an average earnings differential of $5,000.

Annual Fee Only (11 percent of the respondents)

In billion dollar corporations paying an annual fee only, outside directors earned an average of $21,700, 30 percent more than the $16,700 average among all respondents. For $5 billion plus companies, average annual fees rose to $22,600.

7. Committee Compensation

Nearly 90 percent of the billion dollar respondents compensate their directors with an additional fee for serving on committees. Forty-six percent pay an annual plus per-meeting fee, compared with 36 percent for all respondents. Only six percent pay an annual fee only, down from nine percent last year.

Committee member per-meeting fees for the billion dollar respondents average $810, compared with $730 for all committee member respondents. Committee chairmen received somewhat higher compensation, an average of $823 per meeting, and rising to $850 for the $5 billion plus companies. Retainers were more often part of the directors' committee compensation in billion dollar corporations than they were among all participating companies.

8. Additional Compensation Information (Table 7)

The highest paid outside directors of billion dollar corporations earned an average $29,910 last year for all board service activities, exclusive of any consulting arrangements. This is 18 percent over the average $25,310 of five years ago. Compensation for the upper quartile ranges from $36,000 to $69,100, with an average of $44,200 (Table 7A).

In 1984, 41 percent of the billion dollar companies raised compensation to outside directors by an average of $2,950. This amount is slightly more than the increase for all board respondents ($2,710), but less than last year's increase of $3,370 for the largest corporations. For each of the past three studies, billion dollar corporations have reported more modest fee increases. During the next 12 months, 24 percent of the large companies contemplate raising director fees, but by no more than $2,000 to $3,000. Seventy percent of the billion dollar companies expressed a conviction that, in general, their outside directors are adequately compensated.

For 36 percent of the billion dollar respondents, the primary responsibility for board compensation rests with the chairman. In 86 percent of the companies, the board annually reviews and establishes appropriate compensation for the chief executive officer. Eighty-three percent have a similar procedure for other senior officers.

Benefits continue to gain importance for outside directors. Compensation plans at 72 percent of the billion dollar companies (and 76 percent of the $5 billion plus corporations) permit outside directors to defer fees until retirement, up from 46 percent four years ago, and up from the 1983 average of 68 percent. Thirty percent now provide a retirement income plan, well above the 19 percent with such plans two years ago. Other benefits commonly provided include matching educational gift programs (65 percent) and accident insurance (59 percent). Travel expense reimbursement (93 percent) and directors' liability insurance (90 percent) are almost universal (Table 7B).

Stock Ownership

Eighty-three percent of the billion dollar respondents stated that stock options should not be part of directors' compensation, although 34 percent of corporate bylaws allow for them. Eighty percent of the participating billion dollar firms believe that all directors should own a minimum of 100 shares of company stock.

All but three of the 242 billion dollar corporations report that outside directors own stock in their companies. Nearly one-half of the respondents (49 percent) report that their outside directors own an average of one to 4,000 shares, with 40 percent owning between 500 and 5,000 shares.

9. Board Practices and Policies (Table 8)

Billion dollar corporate boards meet an average of eight times per year, the same as the average number of meetings for all respondents. Sixty percent hold at least one regular meeting away from their headquarters office and 13 percent hold at least one meeting outside the United States.

A billion dollar company director spends an average 148 hours per year on board-related business, including review, preparation, meeting attendance and travel, down from last year's 152 hours and 155 the year before, but more than the 140 hours averaged five years ago. The upper quartile average is 214 hours for the billion dollar companies, compared with 190 for all respondents (Table 8).

Directors of the larger companies earn $157 per hour if compensated on an annual plus per-meeting fee basis, up from $149 last year.

Ninety percent of the billion dollar companies permit their chief executive officer to serve on outside public corporate boards, but 12 percent limit the number of outside directorships for the CEO. Thirty-seven percent felt limiting the number of directorships for other executives was not a critical factor.

Eighty-three percent of the billion dollar respondents have a mandatory retirement age policy for their directors, 67 for inside and 70 for outside directors. Only two percent state that their retirement policy is currently under review.

10. Locating Outside Directors (Table 9)

Thirty-seven percent of the billion dollar corporations had at least one outside director resign from their boards last year. Retirement was by far the major reason but time demands and health were also factors. Forty-eight percent added new outside directors. And with 39 percent expecting a board vacancy in the coming year, it is clear that locating new directors is of paramount importance. To identify and select the new directors, the boards continue to rely heavily on recommendations by the chairmen (81 percent) and by other board members (79 percent).

The nominating committee is now used in the selection process by 71 percent of the billion dollar companies. The use of executive search firms is increasing. Fourteen percent of the billion dollar companies use executive search firms to help in selecting directors, compared with nine percent five years ago. Reliance on recommendations from other corporate officers and referrals from executive acquaintances continue to decrease (Table 9).

When asking a director to sit on a board, corporate experience was the most important factor, cited two to three times as often (62 percent) as any other consideration. Specific industry experience and specific functional experience were preferred by 19 percent and 25 percent, respectively. Fully employed executives were preferred by 48 percent of the respondents. Thirty-nine percent reported no predetermined preference in selecting a director.

Nineteen percent had a prospective director decline an invitation to serve on the board. Time commitment was the major reason for declining, cited by 55 percent of the billion dollar corporations, followed by being on too many boards and possible conflict of interest.

This year 65 percent of the $5 billion and over companies mentioned time commitment as the primary reason for declining to serve on boards, compared with 30 percent in 1983.

11. Issues (Table 10)

When asked to rank the importance of issues facing corporate boards today, 72 percent of the billion dollar respondents ranked financial results either first, second or third, up from 66 percent last year. Next in rank was strategic planning, which was cited by 62 percent as one of the top three issues. However, as the single most important issue, financial results climbed from 33 percent in 1983 to 45 percent in 1984.

A major concern of the largest corporations is the managerial succession process. Twenty-five percent of the billion dollar corporations and 32 percent of the $5 billion plus companies cite succession as one of their top three priorities. Also cited by 20 percent of the billion dollar corporations is the issue of mergers/acquisitions. However, among the $5 billion plus respondents, there is a marked drop in concern about mergers/acquisitions since last year, from 25 percent in 1983 to only 13 percent in 1984.

Two other major issues identified by the billion dollar companies include financing/capitalization (26 percent) and day-to-day operations (23 percent).

When asked to project the importance of the same issues five years from now, strategic planning placed first (43 percent), followed by financial results (35 percent). Mergers/acquisitions, which were cited by only one percent of the billion dollar corporations last year, was seen by ten percent in 1984 as a significant issue.

Financial results command the most time at corporate board meetings (26 percent), followed by day-to-day operations (18 percent) and strategic planning (15 percent).

TABLE 1—PARTICIPATING COMPANIES

Of those industrials with sales volumes $1 billion or over, 242 participated in our Twelfth Annual Study.

Size of Company	Number of Companies	%
$1 billion-$2.999 billion	106	43.8%
$3 billion to $4.999 billion	52	21.5%
$5 billion and over	84	34.7%
TOTAL	242	100.0%

Exchange	Number of Companies	%
New York Stock Exchange	226	93.4%
American Stock Exchange	4	1.6%
Over-the-counter	6	2.5%
Other	6	2.5%
TOTAL	242	100.0%

TABLE 2—NUMBER OF DIRECTORS

What is the present number of board members?

Size of Company	Average Number Inside Directors	Average Number Outside Directors	Average Number Directors
$1 billion-$2.999 billion	4	9	13
$3 billion-$4.999 billion	4	10	14
$5 billion and over	4	11	15
Average	4	10	14

TABLE 3—CHAIRMAN ALSO CEO, CEO ALSO COO

Is the Chairman of the Board also the Chief Executive Officer?
Is the Chief Executive Officer also the Chief Operating Officer?

	Chairman/CEO%	CEO/COO%
Yes	81.8%	39.7%
No	16.5%	57.0%
No response	1.7%	3.3%
TOTAL	100.0%	100.0%

TABLE 4—BOARD COMPOSITION

4A. Are one or more of the following individuals on the board?

	1980 Companies Over $1 Billion	1984 Companies Over $1 Billion	1984 All Companies Surveyed
Senior executive (other companies)	93.1%	91.3%	87.5%
Retired or previously employed corporate executive	52.6%	49.6%	46.0%
Commercial banker	47.4%	33.9%	31.3%
Attorney (provides legal services for the company)	23.4%	22.7%	28.4%
Academician	61.7%	65.3%	51.5%
Investment banker	25.7%	26.9%	24.3%
Major shareholder (not officer of the company)	23.4%	25.6%	29.2%
Attorney (does not provide legal services for the company)	34.3%	35.1%	33.5%
Former government official	40.6%	45.9%	30.8%
Female	45.1%	52.9%	44.7%
Ethnic minority member	25.1%	34.7%	26.2%
Non-U.S. citizen	20.6%	22.7%	14.8%
International executive (American)	8.0%	9.9%	7.6%
"Professional" director	20.6%	20.7%	17.9%
Retired executive (other companies)	71.4%	80.2%	69.4%

FIVE-YEAR TREND

4B. From which of the above functions are most women and ethnic minorities drawn?

Function	% Women	% Minorities
Academicians	23.4%	29.8%
Senior executives (other companies)	24.2%	26.2%
Former government officials	14.1%	13.1%
Attorneys (do not provide legal services)	12.5%	19.0%

TABLE 5—COMMITTEES

5A. Which of the following standing committees does the board have?

Committee	%1980 Companies Over $1 Billion	%1984 Companies Over $1 Billion	%1984 All Companies Surveyed
Audit	99.4%	97.5%	97.6%
Compensation	89.7%	85.1%	85.5%
Executive	80.0%	83.9%	79.9%
Nominating	69.1%	71.9%	61.5%
Finance	39.4%	50.8%	37.8%
Benefits	29.1%	38.8%	33.6%
Public affairs	13.7%	17.4%	11.5%
Corporate ethics	9.1%	9.1%	7.0%

FIVE-YEAR TREND

5B. What is the composition of each committee?

Committee	Average Number Inside Directors	Average Number Outside Directors	Average Number Directors
Audit	0	4	4
Compensation	0	4	4
Executive	3	3	6
Nominating	1	4	5
Finance	2	4	6
Benefits	0	4	4
Public affairs	1	4	5
Corporate ethics	1	4	5

5C. How many committee meetings were held during the past 12 months?

	1980 Average Number Of Meetings	1984 Average Number Of Meetings
Audit	4	3
Compensation	5	4
Executive	7	3
Nominating	2	2
Finance	4	4
Benefits	3	3
Public affairs	3	3
Corporate ethics	3	3

TABLE 6—COMPENSATION

How are board members compensated?
Annual Plus Per-Meeting Fee (86.8 percent of respondents)

Annual Fee Amount	%1980	%1983	%1984
Under $7,000	4.0%	3.4%	3.4%
$7,000-$10,999	30.0%	12.7%	9.5%
$11,000-$13,999	28.7%	15.5%	18.1%
$14,000-$16,999	27.3%	32.6%	26.7%
$17,000 and over	10.0%	35.2%	41.9%
Unspecified	—	0.6%	0.4%
TOTAL	100.0%	100.0%	100.0%
		└ FIVE-YEAR TREND ┘	
Average Annual Fee	$12,870	$15,100	$15,500

PLUS

Amount Per Meeting	%1980	%1983	%1984
Under $500	14.7%	5.0%	5.6%
$500-$599	46.7%	25.4%	20.5%
$600-$799	26.0%	40.3%	46.2%
$800-$999	2.0%	9.4%	8.1%
$1,000 and over	10.6%	19.3%	19.6%
Unspecified	—	0.6%	—
TOTAL	100.0%	100.0%	100.0%
		└ FIVE-YEAR TREND ┘	
Average Per-Meeting Fee	$635	$763	$767

EQUALS

Total Annual Compensation	%1980	%1983	%1984
Under $14,000	15.3%	6.7%	7.0%
$14,000-$16,999	20.0%	9.4%	6.0%
$17,000-$19,999	22.0%	18.3%	14.4%
$20,000-$24,999	26.0%	35.6%	34.8%
$25,000 and over	14.7%	30.0%	37.8%
Unspecified	2.0%	—	—
TOTAL	100.0%	100.0%	100.0%
		└ FIVE-YEAR TREND ┘	
Average Total Annual Compensation	$19,890	$22,690	$23,300

Size of Company	1980 Average Compensation	1984 Average Compensation	1984 Upper 25% Average
$1 billion-$2.999 billion	$18,170	$20,300	$27,500
$3 billion-$4.999 billion	$21,610	$24,400	$29,500
$5 billion and over	$22,080	$26,300	$36,100
Average	$19,890	$23,300	$32,100

FIVE-YEAR TREND

TABLE 7—ADDITIONAL COMPENSATION INFORMATION

7A. How much did the highest paid outside director receive in 1984 for all board activities exclusive of any consulting arrangement?

Amount	%1980	%1983	%1984
Under $14,000	7.4%	2.8%	2.0%
$14,000-$19,999	23.5%	9.3%	10.4%
$20,000-$24,999	25.7%	20.9%	16.9%
$25,000-$29,999	20.0%	23.3%	21.5%
$30,000-$39,999	12.6%	24.7%	28.9%
Over $40,000	5.7%	13.0%	13.7%
Unspecified	5.1%	6.0%	6.6%
TOTAL	100.0%	100.0%	100.0%
Average	$25,310	$29,780	$29,910

FIVE-YEAR TREND

Highest Paid Directors

Size of Company	1980 Average Compensation	1984 Average Compensation	1984 Upper 25% Average
$1 billion-$2.999 billion	$23,180	$25,200	$36,000
$3 billion-$4.999 billion	$25,390	$32,600	$43,800
$5 billion and over	$30,780	$34,300	$69,100
Average	$25,310	$29,910	$44,200

FIVE-YEAR TREND

ADDITIONAL COMPENSATION INFORMATION (continued)

7B. What benefits are included in the compensation plan for outside directors?

	%
Travel expense reimbursement	93.0%
Directors' liability insurance	90.1%
Deferral of board fees until retirement	71.5%
Matching educational gifts program	64.9%
Accident insurance	58.7%
Travel expenses for spouse	32.6%
Retirement income plan	29.8%
Life insurance	25.6%
Medical insurance	10.7%

TABLE 8—BOARD PRACTICES AND POLICIES

How many hours (estimated) do directors spend annually on board matters, including review, preparation, meeting attendance and travel?

Number of Hours	%
Under 70	13.6%
70-100	23.2%
101-160	24.9%
161 and over	21.7%
No response	16.6%
TOTAL	100.0%
Average	148 hours

Size of Company	Number of Hours	Upper Quartile Average
$1 billion-$2.999 billion	139	196
$3 billion-$4.999 billion	141	213
$5 billion and over	164	224
Average	148	214

TABLE 9—LOCATING OUTSIDE DIRECTORS

How are outside directors located for the board?

	%1980	%1984
Recommended by chairman	76.0%	80.9%
Recommended by board members	76.6%	78.6%
Nominating committee	71.3%	70.9%
Recommended by other corporate officers	46.2%	35.0%
Executive search	9.3%	14.1%
Referred by executive acquaintances	19.9%	11.4%
Referral from attorneys	1.8%	0.4%

FIVE-YEAR TREND

TABLE 10—ISSUES

What is the relative importance of each of the following issues?

	%Ranking #1	%Ranking #1 or #2	%Ranking #1, #2 or #3
Financial results	45.0%	63.6%	71.5%
Strategic planning	21.1%	45.5%	62.0%
Financing/Capitalization	0.8%	10.3%	26.0%
Managerial succession	7.9%	17.0%	25.3%
Day-to-day operations	7.4%	15.3%	23.2%
Mergers/Acquisitions	1.2%	6.6%	19.8%
Corporate ethics	0.4%	3.3%	6.6%
Multinational issues	1.2%	3.3%	6.2%
Government relations	—	2.9%	4.6%
Shareholder relations	—	0.4%	2.9%
Public relations	—	—	—
Board compensation	—	—	—

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TABLE OF CONTENTS

1 Introduction
3 Summary of Findings
9 Statistical Tables
Participating Companies
Present Number of Board Members
Chairman Also CEO, CEO Also COO
10 Board Composition
11 Committees
12 Compensation
13 Additional Compensation Information
14 Board Practices and Policies
15 Issues
17 Worldwide Offices, United States
Worldwide Offices, International

KORN/FERRY INTERNATIONAL
TWELFTH ANNUAL BOARD OF DIRECTORS STUDY OF BANKS AND OTHER FINANCIAL INSTITUTIONS

Introduction

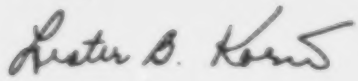
For the past 12 years, Korn/Ferry International has surveyed 1,000 of the nation's most prominent corporations to identify and gain insight into significant trends affecting the structure and behavior of corporate boards. As part of our annual study, we make a special analysis of the data pertaining to banks and other financial institutions.

This year a record 633 companies responded to our survey. Of these, 72 were financial institutions. From our survey results, we have isolated the following trends which apply specifically to banks and other financial institutions:

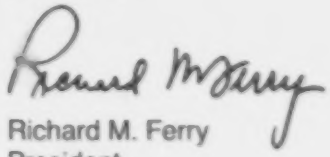
- Banks and financial institutions have the largest boards of all responding companies, averaging 19 directors. They also exhibit the strongest preference for outside director dominance. This year 90 percent prefer a majority of members of their boards to be composed of outsiders.
- Banks and other financial institutions also have the highest number of regular board meetings, at nine a year.
- Banks and financial institutions exhibit the strongest preference for outside directors drawn from the ranks of senior executives of other companies. They average nine per board, nearly double the overall average.
- Banks and other financial institutions continue to have the highest percentage of women directors, who now sit on 72 percent of boards surveyed. They also lead in the appointment of directors from ethnic minorities, who are represented on 53 percent of their boards.
- Financial respondents still lag behind other groups in total compensation, but the gap has narrowed to seven percent, from 18 percent five years ago. The average now stands at $17,500 annual compensation.
- Seventy-one of 72 respondents report using the audit committee. Next in popularity are the executive and compensation committees (89 and 79 percent, respectively). Financial companies lead all other groups in the use of the public affairs committee.

- Banks and financial institutions reported more board resignations than any other group, 57 percent compared with 36 percent for all other companies.
- However, only nine percent reported that a prospective member had declined an invitation to sit on their boards, down from 18 percent last year and better than the overall average of 17 percent.
- Forty-nine percent of banks and financial institutions expect a board vacancy next year, again more than any other group.

The highlights above reflect some of the important trends and developments in the board room activities of banks and other financial institutions. A more detailed discussion follows in the Summary of Findings.



Lester B. Korn
Chairman



Richard M. Ferry
President

SUMMARY OF FINDINGS

On a question-by-question basis, the following findings relate directly to bank and other financial institution respondents (Table 1). Where appropriate, key comparisons are made with all the participants in our study.*

1. Size of Board (Table 2)

Banks and other financial institutions have an average of 19 directors on their board—six more than the average of all respondents and higher than any other group responding to this study.

2. Inside Directors vs. Outside Directors (Table 2)

With an average of four inside and 15 outside directors, banks and other financial institutions have the strongest preference for outside director dominance. This year, 90 percent state that they prefer a majority of their board to be composed of outside directors—seven percent more than the 83 percent stating this preference among all respondents. Moreover, 60 percent of all financial institutions prefer that at least 75 percent of their board be outside directors, compared with only 36 percent for all respondents.

3. Is the Chairman also the CEO? Is the CEO also the COO? (Table 3)

Banks and other financial institutions again report the highest percentage of chairmen who are also chief executive officers. Conversely they have among the lowest percentage of chief executive officers who are also the chief operating officers. Eighty-five percent state that their chairman is the CEO, compared with 77 percent for all respondents, while only 38 percent report that their CEO is also their COO, compared with 42 percent for all respondents.

4. Board Composition (Table 4)

With their strong preference for outside representation, banks and other financial institutions rely heavily on senior executives of other companies and retired executives of other companies as their primary sources for outside directors. Senior executives of other companies are on 93 percent of financial institutions' boards and retired executives of other companies are on 60 percent (Table 4A). Furthermore, banks and other financial institutions each have an average of nine senior executives from other companies, nearly double the overall average of five.

**This year, 633 corporations responded to our Annual Study. Industrial and service corporations account for 77 percent of the total, of which 242 companies have revenues in excess of $1 billion. Banks and other financial institutions account for 11 percent, insurance companies for eight percent and retailers for four percent.*

Seventy-two percent of financial respondents cite corporate experience as the primary consideration when asking a prospective director to sit on the board.

The boards of banks and other financial institutions continue to have the highest percentage of women. Women now sit on 72 percent of all financial respondents' boards, compared with 45 percent for all companies. This year's average of 72 percent is also higher than the 68 percent reported five years ago for financial boards (Table 4A). Women board members are drawn primarily from the ranks of academia (Table 4B).

Banks and other financial institutions are also among the leaders in ethnic minority representation. Minorities are on 53 percent of their boards (Table 4A), well above the 26 percent overall average, and a significant increase (eight percent) over last year's minority representation of 45 percent. Financial respondents register the highest percentage of minorities as compared with all companies surveyed, and no single other group registers higher percentages of minorities on their boards. The financial companies draw most of their minority members from the ranks of senior executives of other companies (Table 4B).

Other groups represented significantly on financial boards include academicians (56 percent), retired or previously employed corporate officers (50 percent), attorneys who do not provide legal services (42 percent) and former government officials (33 percent). Financial boards have, however, the lowest percentage of investment bankers, only 13 percent, compared with 24 percent for all respondents (Table 4A).

5. Committees (Table 5)

Seventy-one out of the 72 financial respondents report having an audit committee. As in the past, the two other most prevalent committees are executive and compensation, cited by 89 percent and 79 percent, respectively. The nominating committee continues to grow in popularity and is now reported by 64 percent—up from 53 percent five years ago. Along with the larger industrials ($3 billion and over), financial companies lead in the use of a public affairs committee. Seventeen percent now report having this committee, compared with 12 percent for all respondents (Table 5A).

The executive committee is the largest with an average of seven members; corporate ethics and benefits are smallest with only four members. Once again, the audit, compensation and benefits committees are composed entirely of outside directors, as is the corporate ethics committee for the first time this year (Table 5B). The number of inside directors on the executive committee decreased from three to two this year.

Meetings of the executive committee decreased from a high of nine reported five years ago and six meetings reported in 1983, to only five in 1984. This steady decline suggests that the executive committee is being replaced increasingly by the entire board acting as a whole. The public affairs and corporate ethics committees increased their average number of meetings from two the preceding year to three in 1984. On average, no committee meets more than five times per year (Table 5C).

6. Compensation (Table 6)

The annual plus per-meeting fee method of compensation is still by far the most popular system of paying outside directors. Eighty-five percent of bank and other financial institution respondents report using this method, up from 77 percent five years ago. The annual fee only and per-meeting fee only methods of compensation were reported by eight percent and seven percent of the financial respondents, respectively.

Annual Plus Per-Meeting Fee (85 percent of the financial respondents)

The average total annual compensation for outside directors of banks and other financial institutions using this method of payment is $17,500, an increase of three percent over last year's average of $17,040 and a 46 percent increase over the past five years ($11,990). Financial respondents still lag behind other respondents to the study in total compensation, but the gap has narrowed to seven percent from the 18 percent of five years ago.

The $17,500 total average compensation comprises an average annual fee of $10,800 and an average per-meeting fee of $707. Although the average annual fee was up from $10,700 in 1983, the per-meeting fee took a sudden dip in 1984. However, the 1984 per-meeting fee was consistent with and in fact slightly higher than the overall five-year average of $675.

This year, the upper quartile average for financial companies is $27,000, effectively the same as the $27,100 average for all respondents.

Annual Fee Only (Eight percent of the respondents)

The average annual fee for financial companies was $14,500, somewhat below the $15,500 average for all respondents, but still up from the $12,460 average for banks and other financial institutions in our Eighth Annual Study.

Per-Meeting Fee Only (Seven percent of the respondents)

The fee paid to outside directors of banks and other financial institutions using this method of compensation averages $860, up from $833 in 1983.

7. Committee Compensation

Ninety-three percent of banks and other financial institutions compensate their outside directors for serving on committees. Of these, 66 percent pay a per-meeting fee only, up from 58 percent in 1983. Twenty-eight percent pay an annual plus per-meeting fee, a decrease from 36 percent reported in the Eleventh Annual Study and 32 percent in the Eighth Annual Study.

The annual fee only method of committee compensation continued its decline to four percent from six percent in 1983 and five percent in our Eighth Annual Study.

Financial respondents compensated committee participants with meeting fees of an average $682, compared with $730 for all respondents.

8. Additional Compensation Information (Table 7)

The highest paid financial directors receive an average of $22,830, seven percent below the overall average of $24,440. This average is also lower than the $23,980 reported for financial respondents last year.

The average upper quartile compensation for financial respondents is $38,100, compared with $41,600 for all respondents. The 1983 to 1984 percent increase for upper quartile respondents overall was greater than the one-year upper quartile increase for financial companies alone. Twenty-one percent also pay at least one outside director additional consulting fees, down from 33 percent last year.

Forty-three percent of the financial respondents increased directors' compensation an average of $2,830 in 1984. Although this is slightly above the average increase for all respondents, it is nevertheless below the average increase of $3,000 for financial companies last year. Eleven percent predict an increase in board fees for the coming year. Sixty-eight percent of the financial respondents believe that their outside directors are adequately compensated, consistent with the response of all surveyed companies.

Eighty-nine percent of the banks and other financial institutions have a procedure whereby directors annually review and establish appropriate compensation for their chief executive officer. Eighty-one percent have such a procedure for other senior officers as well. Thirty-six percent report that their chairman is primarily responsible for establishing board compensation.

This year, banks and other financial institutions, along with insurance companies, have taken the lead in offering outside directors the option of deferring board fees until retirement. Sixty-eight percent offered this option, considerably above the 60 percent for all respondents. Another 14 percent indicate that they are planning to institute this option.

Other benefits commonly offered include directors' liability insurance and travel expense reimbursement (each cited by 89 percent of the respondents), accident insurance (42 percent) and matching educational gifts (38 percent). Thirteen percent offer retirement plans for their outside directors.

Stock Ownership

Seventy-nine percent of the financial respondents stated that stock options should not be part of directors' compensation, and only 17 percent of corporate bylaws allow for them, compared with 33 percent of all responding companies. However, 74 percent of the participating financial firms believe that all directors should own a minimum of 100 shares of company stock. Eighteen percent believe directors should own 1,000 shares and more.

All financial respondents report that outside directors own stock in their companies. Over one-third of the respondents (36 percent) report that their outside directors own an average of one to 4,000 shares, and nearly 20 percent report owning between 500 and 5,000 shares.

9. Board Practices and Policies (Table 8)

Banks and other financial institutions had an average of nine regular board meetings last year, one more than the average of eight for all respondents. Thirty-five percent held one or two of these meetings outside their headquarters office or a major facility city. But of these, only four percent were held outside the United States.

An outside director of a financial institution devoted an average of 114 hours to board-related business last year—seven hours less than the average for all respondents, but five hours above last year's average for financial companies. The upper quartile average for financial companies is 189 hours per year (Table 8A). In 1984, the hourly rate for directors of financial companies was slightly less than the overall hourly rate ($154 vs. $155 per hour).

In 1984, 57 percent of banks and other financial institutions reported the resignation of an outside director during the past year, well above the 36 percent figure for all companies, and 13 percent over last year's resignations for financial respondents. Banks and other financial institutions had more resignations than any other reporting group. Fifty-seven percent added new outside directors, also more than any other responding group, for the second year in a row. Forty-nine percent expect a board vacancy in 1985, again more than any other group and clearly indicating the continued importance of locating outside directors within this industry segment. While 54 percent reported some use of the nominating committee to identify and select new directors, compared with 57 percent

overall, most banks and other financial institutions continue to rely heavily on recommendations by their chairmen (78 percent) and by other board members (71 percent) (Table 8B). When asking a prospective director to sit on a board, 77 percent of the financial respondents view corporate experience as the primary consideration. There is a decided preference for fully employed outside directors; 69 percent cited this preference, compared with 51 percent for all respondents.

Nine percent of banks and other financial institutions report that at least one prospective director declined an invitation to serve on their boards, an improvement from the 18 percent reported last year and less than the overall average of 17 percent. Time commitment was the primary reason for declining such an invitation (Table 8C).

Eighty-three percent of the financial respondents permit their chief executive officer to serve on outside public corporate boards. Generally, respondents agreed that limiting the number of board directorships for other key executives was not a critical factor.

Seventy-six percent have a mandatory retirement age—down from 86 percent last year. The average retirement age is 68 for inside and 70 for outside directors.

10. Issues (Table 9)

Financial results and strategic planning continue to be the two most important issues facing the boards of banks and other financial institutions. When asked to rank various issues, 88 percent placed financial results either first, second or third and 65 percent ranked strategic planning among the top three. These concerns were followed by financing/capitalization (43 percent) and day-to-day operations (36 percent) (Table 9). When asked to project rankings for the same issues five years from now, financia' results and strategic planning were again the top two. However, strategic planning was rated equal in importance to financial results, each cited by 47 percent. Last year, only 14 percent of respondents felt strategic planning would be an important issue in five years. Managerial succession and mergers/acquisitions, cited by only one percent of the financial population last year, jumped to 17 percent and 14 percent, respectively, as a long-term issue of importance.

The greatest percentage of board meeting time is devoted to financial results (26 percent), followed by day-to-day operations (18 percent) and strategic planning (14 percent).

TABLE 1—PARTICIPATING COMPANIES

Seventy-two of America's major banks and financial institutions participated in our Twelfth Annual Study.

Size (Assets)	Number of Financial Institutions	%
Under $2 billion	4	5.6%
$2 billion and over	68	94.4%
TOTAL	72	100.0%

Stock Exchange	Number of Financial Institutions	%
New York Stock Exchange	33	45.8%
American Stock Exchange	2	2.8%
Over-the-counter	22	30.6%
Other	15	20.8%
TOTAL	72	100.0%

TABLE 2—PRESENT NUMBER OF BOARD MEMBERS

What is the present number of board members?

Size of Financial Institution	Average Number Inside Directors	Average Number Outside Directors	Average Number Directors
Under $2 billion	3	8	11
$2 billion and over	4	15	19
Average	4	15	19

TABLE 3—CHAIRMAN ALSO CEO, CEO ALSO COO

Is the Chairman of the Board also the Chief Executive Officer?
Is the Chief Executive Officer also the Chief Operating Officer?

	Chairman/CEO %	CEO/COO %
Yes	84.7%	37.5%
No	15.3%	61.1%
No response	—	1.4%
TOTAL	100.0%	100.0%

TABLE 4—BOARD COMPOSITION

4A. Are one or more of the following individuals on the board?

	1980 Financial Institutions	1984 Financial Institutions	1984 All Companies Surveyed
Senior executive (other companies)	94.1%	93.1%	87.5%
Retired or previously employed corporate officer	47.1%	50.0%	46.0%
Commercial banker	11.8%	25.0%	31.3%
Attorney (provides legal services for the company)	41.2%	33.3%	28.4%
Academician	45.6%	55.6%	51.5%
Investment banker	10.3%	12.5%	24.3%
Major shareholder (not officer of the company)	26.5%	26.4%	29.2%
Attorney (does not provide legal services for the company)	29.4%	41.7%	33.5%
Former government official	17.6%	33.3%	30.8%
Female	67.6%	72.2%	44.7%
Ethnic minority member	35.3%	52.8%	26.2%
Non-U.S. citizen	14.7%	15.3%	14.8%
International executive (American)	8.8%	12.5%	7.6%
"Professional" director	22.1%	20.8%	17.9%
Retired executive (other companies)	66.2%	59.7%	69.4%

FIVE YEAR TREND

4B. From which of the above functions are most women and ethnic minorities drawn?

Function	% Women	% Minorities
Academicians	21.2%	21.1%
Senior executives (other companies)	11.5%	28.9%
Former government officials	9.6%	15.8%
Attorneys (do not provide legal services)	3.8%	5.3%

TABLE 5—COMMITTEES

5A. Which of the following standing committees does the board have?

Committee	Financial Institutions	All Companies Surveyed
Audit	98.6%	97.6%
Executive	88.9%	79.9%
Compensation	79.2%	85.5%
Nominating	63.9%	61.5%
Benefits	26.4%	33.6%
Finance	20.8%	37.8%
Public affairs	16.7%	11.5%
Corporate ethics	6.9%	7.0%

5B. What is the composition of each committee?

Committee	Average Number Inside Directors	Average Number Outside Directors	Average Number Directors
Audit	0	5	5
Executive	2	5	7
Compensation	0	5	5
Nominating	1	5	6
Benefits	0	4	4
Finance	2	4	6
Public affairs	1	5	6
Corporate ethics	0	4	4

5C. How many committee meetings were held during the past 12 months?

Committee	1980 Average Number of Meetings	1983 Average Number of Meetings	1984 Average Number of Meetings
Audit	5	5	5
Executive	9	6	5
Compensation	4	4	4
Nominating	2	2	2
Benefits	3	3	3
Finance	5	6	5
Public affairs	4	2	3
Corporate ethics	1	2	3

TABLE 6—COMPENSATION

Annual Plus Per-Meeting Fee (84.7 percent of respondents)

Annual Fee Amount	%
Under $5,000	11.4%
$5,000-$6,999	13.1%
$7,000-$10,999	27.9%
$11,000-$13,999	24.6%
$14,000 and over	23.0%
Unspecified	—
TOTAL	100.0%
Average Annual Fee	$10,800

PLUS

Amount Per Meeting	%
Under $250	—
$250-$499	18.0%
$500-$599	37.7%
$600-$799	21.3%
$800 and over	21.4%
Unspecified	1.6%
TOTAL	100.0%
Average Per-Meeting Fee	$707

EQUALS

Total Annual Compensation	%
Under $7,000	3.4%
$7,000-$10,999	12.1%
$11,000-$13,999	17.2%
$14,000-$16,999	10.3%
$17,000-$19,999	25.9%
$20,000-$24,999	19.0%
$25,000 and over	12.1%
TOTAL	100.0%
Average Total Annual Compensation	$17,500

Annual Plus Per-Meeting Fee

Type and Size of Company	Average Compensation	Upper Quartile Average
Banks and other financial institutions	$17,500	$27,000
Insurance companies	$16,400	$27,300
Retailers	$21,400	$31,100
Service companies	$18,900	$27,900
Industrials		
Under $200 million	$12,300	$18,200
$200 million-$399 million	$13,000	$14,100
$400 million-$599 million	$15,200	$20,300
$600 million-$999 million	$17,900	$24,800
$1 billion-$2.999 billion	$20,300	$27,500
$3 billion-$4.999 billion	$24,400	$29,500
$5 billion and over	$26,300	$36,100
Average	$18,800	$27,100

TABLE 7—ADDITIONAL COMPENSATION INFORMATION

How much did the highest paid director receive in 1984 for all board services exclusive of any consulting arrangement?

Amount	%
Under $11,000	15.3%
$11,000-$16,999	12.5%
$17,000-$24,999	29.2%
$25,000-$29,999	18.1%
$30,000-$39,999	12.5%
$40,000 and over	9.7%
Unspecified	2.7%
TOTAL	100.0%
Average	$22,830

Highest paid director

Type and Size of Company	Average Compensation	Upper Quartile Average
Banks and other financial institutions	$22,830	$38,100
Insurance companies	$24,890	$48,100
Retailers	$30,390	$54,200
Service companies	$27,090	$46,000
Industrials		
Under $200 million	$14,650	$23,600
$200 million-$399 million	$16,210	$28,000
$400 million-$599 million	$18,630	$25,600
$600 million-$999 million	$23,110	$37,800
$1 billion-$2.999 billion	$25,200	$36,000
$3 billion-$4.999 billion	$32,600	$43,800
$5 billion and over	$34,300	$69,100
Average	$24,440	$41,600

TABLE 8—BOARD PRACTICES AND POLICIES

8A. How many hours (estimated) do directors spend annually on board matters, including review and preparation time, meeting attendance and travel?

Number of Hours	%
Under 40	4.2%
41 to 70	18.1%
71 to 100	25.0%
101 to 160	22.2%
161 and over	18.1%
No response	12.4%
TOTAL	100.0%
Average	114 hours

Type and Size of Company	Hours: Number of hours	Hours: Upper Quartile Average
Banks and other financial institutions	114	189
Insurance companies	111	170
Retailers	109	170
Service companies	126	196
Industrials		
Under $200 million	102	168
$200 million-$399 million	93	143
$400 million-$599 million	102	165
$600 million-$999 million	108	177
$1 billion-$2.999 billion	139	196
$3 billion-$4.999 billion	141	213
$5 billion and over	164	224
Average	121	190

8B. How are outside directors located for the board?

	%
Recommended by chairman	77.9%
Recommended by board members	70.6%
Nominating committee	54.4%
Recommended by other corporate officers	44.1%
Referred by executive acquaintances	10.3%
Executive search	2.9%

8C. Have any prospective directors declined an invitation to serve on the board during the past year?

	%
Yes	9.1%
No	90.9%
TOTAL	100.0%

If yes, what is the predominant reason?

	%
Time commitment	50.0%
Conflict of interest	16.7%
On too many boards	—
Increased legal liability	16.7%
Other	16.6%
TOTAL	100.0%

TABLE 9—ISSUES

What is the relative importance of each of the following issues?

	% Ranking #1	% Ranking #1 or #2	% Ranking #1, #2 or #3
Financial results	66.7%	82.0%	87.6%
Strategic planning	13.9%	41.7%	65.3%
Financing/Capitalization	1.4%	22.2%	43.0%
Day-to-day operations	9.7%	22.2%	36.1%
Mergers/Acquisitions	—	5.6%	15.3%
Managerial succession	5.6%	8.4%	12.6%
Multinational issues	1.4%	1.4%	7.0%
Public relations	—	2.8%	4.2%
Government relations	1.4%	5.6%	5.6%
Corporate ethics	—	—	—
Board compensation	—	—	—

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KORN/FERRY INTERNATIONAL

1985 ANNUAL BOARD OF DIRECTORS STUDY

OF RETAIL COMPANIES

KORN/FERRY INTERNATIONAL

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INDEX

1 Introduction

Summary of Findings

12 Statistical Tables

Present Number of Board Members

13 Board Composition

14 Committees

15 Compensation

16 Committee Compensation

17 Additional Compensation

18 Board Practices and Policies

20 Issues

21 Profile of Korn/Ferry International

Introduction

For the past 12 years, Korn/Ferry International has surveyed 1,000 of the nation's most prominent corporations to identify and gain insight into significant trends affecting the structure and behavior of corporate boards. As part of our annual study, we make a special study of the data pertaining to the boards of retail industry participants.

This year, of the record 633 corporations that responded to our annual study, four percent were retailers. Industrial and service corporations accounted for 77 percent of the total, banks and other financial institutions, 11 percent and insurance companies, eight percent.

Summary of Findings

On a question-by-question basis, the following findings relate directly to retail industry respondents (Table 1). Whenever appropriate, comparisons are made between this group and all participants in our study.

1. **Size of Board (Table 2)**

   Retailers showed a marked increase in board size. Boards of directors of retail respondents have an average of 16 members, compared with 13 in 1983 and 13 for all respondents. The largest retailers (companies with revenues of $2 billion or more) average 19 directors, equal to the size of the largest boards -- those of banks and

financial institutions.

2. **Inside Directors vs. Outside Directors (Table 2)**

The retail boards are composed of five inside and 11 outside directors, one inside director and two outside directors more than the boards of all respondents. Retailers increased the number of outside members from eight reported in 1983 to 11 this year. Eighty percent prefer that more than half their board come from outside the company (compared with 83 percent for all respondents). Only 20 percent prefer three-quarters or more to be outside directors (vs. 36 percent of all respondents).

3. **Is the Chairman also the CEO? Is the CEO also the COO? (Table 3)**

Seventy-five percent of the retail respondents report that their chairman is also their chief executive officer. Forty-eight percent note that their chief executive officer is also their chief operating officer, a six percent increase over 1983.

4. **Board Composition (Table 4)**

Retailers continue to rely on senior executives of other companies as the primary source for outside directors; and the percentage of retailers having these executives on their boards has increased to 84 percent, up from 76 percent last year. Retired executives of other companies

are another important source for outside directors; their representation remains at 64 percent, the same as last year.

Sixty-eight percent of the retailers have women on their boards -- well above the 45 percent for all respondents and a seven percent increase over last year's representation for retail boards (Table 4A). Among the largest retailers ($2 billion and over), 88 percent have women on their boards -- the highest percentage of any group responding. Retailers draw their outside women directors primarily from academia and the ranks of senior executives of other companies. (Table 4B). Minorities sit on 40 percent of retail boards, compared with 26 percent of all respondents. This year, minority representation on retail boards increased compared to the percentage for all respondents which remained the same as last year's figure. Minorities are primarily senior executives of other companies and academicians.

Other groups that are highly represented on retail boards include academicians (on 56 percent), major shareholders who are not officers of the company (36 percent), and attorneys who provide legal services (36 percent).

In 1983, we mentioned major shifts in the composition of retail boards over the previous five years. In 1984, the

following should be noted:

-Retired or previously employed corporate officers continue to decrease from 59 percent in 1980 and 52 percent in 1983, to 32 percent in 1984.

-Commercial bankers have declined from 41 percent in 1980 and 27 percent in 1983 to 20 percent in 1984.

-Attorneys who provide legal services to the company fell from 41 percent in 1980 to 27 percent in 1983, but rebounded to 36 percent this year.

-Investment bankers slipped from 25 percent in 1980 to 24 percent in 1983 but rose to 32 percent in 1984.

On the other hand, groups experiencing continuous increases in representation since 1980 include:

-Women (from 50 percent to 68%).

-Ethnic minorities (from 19 percent to 40 percent).

5. Committees (Table 5)

The most prevalent committees among the retail respondents continue to be the audit committee (reported by 100 percent of the respondents), compensation (reported by 88 percent), and executive (reported by 84 percent) (Table 5A). Sixty-four percent of the retailers have a nominating committee, up from 58 percent last year. Of these, 69 percent note that the nominating committee participates in board committee appointment, the most of all respondents. With the compensation and executive committees, the

nominating committee plays a significant role in the management succession process in retail organizations.

The public affairs and finance committees are the largest, averaging six directors each. All other committees average four or five members. Overall, committee size increased this year. The finance committee gained one outside director, and the corporate ethics committee which was represented in only one retail company in 1983, gained in popularity, and was now reported by four. The audit committee is composed entirely of outside directors while the executive and finance have the most inside directors--two (Table 5B).

All committees average between two and four meetings per year (Table 5C). The finance and benefits committees increased their average number of meetings this year from three to four. Meetings of the compensation, nominating and public affairs committees decreased by one.

6. Compensation (Table 6)

Retailers, who in the past often paid an annual fee only, have now turned largely to the annual plus per-meeting fee. Eighty-eight percent of the retailers compensate their outside directors on an annual plus per-meeting basis, an increase from 76 percent last year. Conversely, the percentage paying an annual fee only decreased from 18

percent last year to eight percent in 1984 and decreased from six percent to four percent for per-meeting fees only.

-Annual Plus Per-Meeting Fee (87.5 percent of the respondents).

The retail respondents increased the total average annual compensation for their outside directors by 12 percent this year to $21,400, compared with $19,120 last year. This is 14 percent more than the total compensation for all respondents ($18,800). The total comprises an average annual fee of $14,500 and an average per-meeting fee of $669. Since 1983, the percentage of retailing directors who earn $25,000 or more increased from 12 to 20 percent. (In 1980, the average compensation for all retailers was less than $20,000 per year.)

The upper quartile average for retailers, included in this section for comparative purposes, is $31,100 -- up 13 percent from last year's $27,500 and 15 percent above the $27,100 average for all respondents.

The retail industry as a group registered the greatest gains in 1984 board compensation.

-Annual Fee Only

For retailers using this method of compensation, the average annual fee is $12,000, a slight dip from last

year's $12,500. But only two retailing companies paid an annual fee only in 1984, compared with six companies last year.

-Per-Meeting Fee Only

For retail directors compensated in this manner, the average per-meeeting fee is $200. Only one company reported compensating directors in this manner.

7. **Committee Compensation (Table 7)**

Ninety-two percent of the retail respondents pay their outside directors additionally for committee service, compared with 88 percent for all respondents. But, as with all respondents, the method of compensation has shifted. While most still pay a per-meeting fee only, the percentage paying in this manner has dropped considerably from 73 percent in our Eighth Annual Study and from 56 percent in 1983 to 48 percent this year. The method of compensation has shifted to the annual plus per-meeting fee system of compensation -- from 34 percent last year to 44 percent this year. Nine percent pay an annual fee only.

Among retailers, the average per-meeting fee only for committee members averages $856, rising to $892 for committee chairmen.

8. **Additional Compensation Information (Table 8)**

Thirty-six percent of the retail respondents raised outside director fees an average $2,520 during the past 12 months. This is slightly less than the average increase of $2,710 for all respondents. Fifteen percent of the retailers project increasing board fees during the next 12 months.

The highest paid outside retail director earns an average $30,390 per year for all board services exclusive of any consulting arrangements. This represents a 32 percent increase over last year's average of $23,050, and a more than 100 percent increase over the 1980 average of $14,900. The upper quartile average in this category is $54,200 for retail directors -- higher than the average $41,600 for all directors (Table 8A). Five of the retail respondents have outside directors who also receive consulting fees.

As with all directors, benefits are becoming an increasingly important part of compensation plans for outside directors of retail companies. Forty-six percent allow their outside directors to defer board fees until retirement. Twenty-five percent provide retirement income plans (up from 24 percent last year). Other benefits include matching educational gifts programs (cited by 40 percent vs. 32 percent last year), accident insurance (60 percent vs. 48 percent) and pension plans, now offered by 25 percent of the respondents, up from 20 percent. Travel

expense reimbursement and directors' liability insurance are commonly included and reported by 100 percent and 85 percent respectively (Table 8B).

Eighty-eight percent of the retailers have procedures whereby directors annually review and establish appropriate compensation for their chief executive officers and 92 per-percent for other senior officers.

Sixty-four percent believe that their outside directors are adequately compensated, compared with 97 percent in 1983, and yet the retail industry as a group registered the biggest gains in yearly compensation.

-Stock Ownership

Seventy-two percent of the respondents stated that stock options should not be part of directors' compensation, although 48 percent of corporate bylaws allow for them, more than any other industry segment. However, 80 percent of the participating retail firms believe that all directors should own a minimum of 100 shares of company stock. Twenty-eight percent believe directors should own 1,000 shares or more.

All but one retailing company report that outside directors own stock in their companies. Thirty-six percent report that their outside directors own an average of one

to 4,000 shares, and 28 percent report owning between 500 and 5,000 shares.

9. Board Practices and Policies (Table 9)

The retail respondents average seven regular board meetings per year -- one less than the average for all respondents. Fifty-six percent hold at least one of these meetings outside their headquarters or major facility city.

The estimated time outside directors of retail companies devote annually to board-related business was reported at 109 hours, a substantial decrease from the 130 hours reported in 1983, but up from the 93 hours two years ago and the 91 hours reported five years ago. If compensated on an annual plus per-meeting basis, these directors earn an average $196 per hour -- the highest hourly rate of all respondents. The upper quartile average number of hours for retail directors is 170 compared with 190 hours reported by all respondents (Table 9A).

Although 28 percent of the retail respondents had an outside director resign from the board, primarily due to retirement, 40 percent added new outside directors to their boards. In selecting and identifying new directors, retailers continue to rely heavily on the recommendations of the chairmen and other board members. The use of the nominating committee, however, continues to grow. This

year, 59 percent cited its use in the selection process (Table 9B). Corporate experience continues to be the primary consideration in asking prospective directors to sit on the board (Table 9C). Twenty-four percent had a prospective director decline an invitation to serve on their board, down from last year's 33 percent, but higher than the 17 percent for all respondents. Retailers continue to experience the greatest number of refusals to serve on corporate boards.

10. Board Issues (Table 10)

When asked to rank the relative importance of various issues facing corporate boards today, retail companies, like all respondents, rate financial results well above the other issues. Eighty-four percent ranked it first, second or third. Strategic planning, the second most important issue, was placed as one, two or three by 52 percent, compared with 55 percent in 1983. Other significant issues include financing/capitalization, day-to-day operations and managerial succession.

When asked to project rankings for the same issues five years from now, financial results again was placed first in importance (32 percent), followed by strategic planning (28 percent).

TABLE 1 - PARTICIPATING COMPANIES

Twenty-five of America's major retailers participated in our Twelfth Annual Study.

Size (Sales)	No. of Retailers	%
Under $2 billion	9	36.0%
$2 billion and over	16	64.0%
TOTAL	25	100.0%

Stock Exchange	No. of Retailers	%
New York Stock Exchange	19	76.0%
American Stock Exchange	2	8.0%
Over-The-Counter	3	12.0%
Other	1	4.0%
TOTAL	25	100.0%

TABLE 2 - PRESENT NUMBER OF BOARD MEMBERS

Size of Company	Average Number of Inside Directors	Average Number of Outside Directors	Average Number of Directors
Under $2 billion	4	6	10
$2 billion and over	6	13	19
Average	5	11	16

TABLE 3 - CHAIRMAN ALSO CEO, CEO ALSO COO

Is the Chairman of the Board also the Chief Executive Officer?
Is the Chief Executive Officer also the Chief Operating Officer?

	% CEO	% COO
Yes	75.0%	48.0%
No	25.0%	52.0%
TOTAL	100.0%	100.0%

TABLE 4 - BOARD COMPOSITION

4A. Are one or more of the following individuals on the board?

	1980 Retailers	1984 Retailers	1984 All Companies Surveyed
Senior Executives (other companies)	75.0%	84.0%	87.5%
Retired or Previously Employed Corporate Officer	59.4%	32.0%	46.0%
Commercial Banker	40.6%	20.0%	31.3%
Attorney (provides legal services to the company)	40.6%	36.0%	28.4%
Academician	59.4%	56.0%	51.5%
Investment Banker	25.0%	32.0%	24.3%
Major Shareholder (not officer of the company)	31.3%	36.0%	29.2%
Attorney (does not provide legal services to company)	50.0%	24.0%	33.5%
Former Government Official	25.0%	20.0%	30.8%
Female	50.0%	68.0%	44.7%
Ethnic Minority Representative	18.8%	40.0%	26.2%
"Professional" Director	25.0%	24.0%	17.9%
Retired Executive (other companies)	59.4%	64.0%	69.4%

4B. From which of the above functions are most women and ethnic minorities drawn?

Function	% Women	% Minorities
Senior Executives (other companies)	23.5%	30.0%
Academicians	35.3%	20.0%
Former Government Officials	5.9%	----
Attorneys (do not provide legal services)	11.8%	20.0%
Retired Executives (other companies)	11.8%	10.0%

TABLE 5 - COMMITTEES

5A. Which of the following standing committees does the Board have?

Committee	1980 Retailers	1984 Retailers	1984 All Companies Surveyed
Audit	96.9%	100.0%	97.6%
Executive	84.4%	84.0%	79.9%
Compensation	81.3%	88.0%	85.5%
Finance	37.5%	36.0%	37.8%
Nominating	62.5%	64.0%	61.5%
Public Affairs	18.8%	20.0%	11.5%
Corporate Ethics	12.5%	16.0%	7.0%
Benefits	40.6%	40.0%	33.6%

5B. What is the composition of each committee?

Committee	Average # Inside Directors	Average # Outside Directors	Average # Directors
Audit	0	4	4
Executive	2	3	5
Compensation	1	3	4
Finance	2	4	6
Nominating	1	4	5
Public Affairs	1	5	6
Corporate Ethics	1	3	4
Benefits	1	3	4

5C. How many committee meetings were held during the past twelve months?

Committee	1980 Average Number of Meetings	1983 Average Number of Meetings	1984 Average Number of Meetings
Audit	4	3	3
Executive	4	2	2
Compensation	4	4	3
Finance	5	3	4
Nominating	2	3	2
Public Affairs	3	3	2
Corporate Ethics	2	-	3
Benefits	3	3	4

TABLE 6 - COMPENSATION

Annual Plus Per-Meeting Fee (87.5 percent of the respondents)

Annual Fee Amount	%
Under - $ 7,000	14.0%
$ 7,000 - $10,999	14.2%
$11,000 - $13,999	4.8%
$14,000 - $16,999	33.3%
$17,000 - $19,999	9.5%
$20,000 - $24,999	19.4%
$25,000 and over	4.8%
TOTAL	100.0%
Average Total Annual Fee	$14,500

PLUS

Amount Per Meeting	%
Under $500	4.8%
$500 - $599	28.6%
$600 - $700	47.6%
$800 and over	19.0%
TOTAL	100.0%
Average Per-Meeting Fee	$669

EQUALS

Total Annual Compensation	%
Under $14,000	15.0%
$14,000 - $16,999	10.0%
$17,000 - $19,999	25.0%
$20,000 - $24,999	30.0%
$25,000 and over	20.0%
TOTAL	100.0%
Average Total Annual Compensation	$21,400

Annual Plus Per-Meeting Fee (continued)

Type and Size of Company	Average Compensation	Upper Quartile Average
Retailers	$21,400	$31,100
Banks and other Financial Institutions	$17,500	$27,000
Insurance companies	$16,400	$27,300
Service companies	$18,900	$27,900
Industrials		
Under $200 million	$12,300	$18,200
$200 million - $399 million	$13,000	$14,100
$400 million - $599 million	$15,200	$20,300
$600 million - $999 million	$17,900	$24,800
$1 billion - $2.999 billion	$20,300	$27,500
$3 billion - $4.999 billion	$24,400	$29,500
$5 billion and over	$26,300	$36,100
Average	$18,800	$27,100

TABLE 7 - COMMITTEE COMPENSATION

7. Are outside directors paid an extra fee for serving on a committee?

	%
Yes	92.0%
No	4.0%
No response	4.0%
TOTAL	100.0%

If yes, how are they compensated?

Compensation	% 1983	% 1984
Per-Meeting Fee Only	56.2%	47.8%
Annual plus Per-Meeting Fee	34.4%	43.5%
Annual Fee Only	6.2%	8.7%
No response	3.1%	---
TOTAL	100.0%	100.0%

TABLE 8 - ADDITIONAL COMPENSATION INFORMATION

8A. How much did the highest paid director receive in 1983 for all board service activities exclusive of any consulting arrangements?

Amount	%
Under $ 7,000	---
$ 7,000 - $16,999	9.5%
$17,000 - $19,999	23.8%
$20,000 - $24,999	9.5%
$25,000 - $24,999	14.3%
$30,000 - $39,000	19.1%
$40,000 and over	23.8%
TOTAL	100.0%
Average	$30,390

Highest Paid Director

Type and Size of Company	Average Compensation	Upper Quartile Average
Retailers	$30,390	$54,200
Banks and other Financial Institutions	$22,830	$38,100
Insurance companies	$24,890	$48,100
Service companies	$27,090	$46,000
Industrials		
Under $200 million	$14,650	$23,600
$200 million - $399 million	$16,210	$28,000
$400 million - $599 million	$18,630	$25,600
$600 million - $999 million	$23,110	$37,800
$1 billion - $2.999 billion	$25,200	$36,000
$3 billion - $4.999 billion	$32,600	$43,800
$5 billion and over	$34,300	$69,100
Average	$24,440	$41,600

8B. What benefits are included in the compensation plan for outside directors?

	% Retailers	% All Companies Surveyed
Travel Expense Reimbursement	100.0%	90.8%
Directors Liability Insurance	85.0%	87.0%
Deferral of Board Fees Until Retirement	46.0%	60.3%
Accident Insurance	60.0%	47.2%
Travel Expenses for Spouse	15.0%	26.7%
Matching Educational Gifts Program	40.0%	48.2%
Life Insurance	25.0%	22.1%
Retirement Income Plan	25.0%	19.9%
Pension Plan	15.0%	12.8%

TABLE 9 - BOARD PRACTICES AND POLICIES

9A. How many hours (estimated) do directors spend annually on board matters including review and preparation time, meeting attendance and travel?

Number of Hours	%
40 and under	----
41 to 70	20.0%
71 to 100	20.0%
101 to 160	44.0%
161 and over	8.0%
No Response	8.0%
TOTAL	100.0%
Average	109 hours

Hours

Type and Size of Company	Number of Hours	Upper Quartile Average
Retailers	109	170
Banks and other Financial Institutions	114	189
Insurance companies	111	170
Industrials		
Under $200 million	102	168
$200 million - $399 million	93	143
$400 million - $599 million	102	165
$600 million - $999 million	108	177
$1 billion - $2.999 billion	139	196
$3 billion - $4.999 billion	141	213
$5 billion and over	164	224
Average	121	190

9B. How are outside directors located for the board?

	%
Recommended by chairman	77.2%
Recommended by board members	81.8%
Nominated by committee	59.1%
Recommended by other corporate officers	54.5%
Executive search	4.5%

9C. What are the primary considerations in asking a prospective director to sit on the board?

	%
Corporate Experience	81.0%
Specific Functional Experience	19.0%
Specific Industry Experience	28.6%
Prestige	4.8%

TABLE 10 - ISSUES

What is the relative importance of each of the following issues?

	Percent Ranking No. 1	Percent Ranking No. 1 or 2	Percent Ranking No. 1, 2, or 3
Financial results	68.0%	80.0%	84.0%
Strategic planning	12.0%	36.0%	52.0%
Financing/capitalization	----	4.0%	28.0%
Day-to-Day operations	16.0%	32.0%	32.0%
Managerial succession	4.0%	20.0%	36.0%
Mergers/acquisitions	----	8.0%	20.0%
Shareholder relations	----	4.0%	8.0%
Corporate ethics	----	8.0%	8.0%

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KORN/FERRY INTERNATIONAL

1985 ANNUAL BOARD OF DIRECTORS STUDY

OF INSURANCE COMPANIES

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INDEX

1	Introduction Summary of Findings
11	Statistical Tables Present Number of Board Members
12	Board Composition
13	Committees
14	Compensation
15	Additional Compensation Information
16	Board Practices and Policies
18	Issues
19	Profile of Korn/Ferry International

* * *

Introduction

For the past 12 years, Korn/Ferry International has surveyed 1,000 of the nation's most prominent corporations to identify and gain insight into significant trends affecting the structure and behavior of corporate boards. As part of our annual study, we make a special study of the data pertaining to the boards of insurance company participants.

This year, of the record 633 corporations that responded to our annual study, 11 percent were insurance companies. Industrial and service corporations accounted for 77 percent of the total, banks and other financial institutions, 11 percent and retailers, four percent.

Summary of Findings

On a question-by-question basis, the following findings are directly related to the insurance industry respondents (Table 1). Whenever appropriate, comparisons are made with all other responding corporations in our study.

1. Size of Board (Table 2)

The boards of directors of insurance companies have an average of 16 members. This is one more than last year and higher than the average of 13 for all respondents. Banks and financial institutions continue to have the largest boards, averaging 19.

2. Inside Directors vs. Outside Directors (Table 2)

Insurance boards are composed primarily of outside directors, each averaging 12 outside directors compared to five inside directors, an increase of two from last year. The averages for all respondents is four inside and nine outside directors.

Among insurance respondents, 89 percent believe that more than half of their directors should come from outside the company. Of these, 60 percent believe that at least three-quarters should be outside directors, compared with only 36 percent for all respondents.

3. Board Composition (Table 3)

The two major sources of outside directors for insurance company boards are senior executives of other companies and retired executives of other companies, each cited by 86 percent. This suggests that insurance companies are continuing to seek outside directors who are not only independent of the company but who have considerable management experience. This is further verified by the fact that 85 percent of the insurers cited corporate experience as the primary consideration in asking a prospective director to sit on their boards -- more than any other responding group.

Insurers' boards also exceed the overall average in the percentage of women directors (61 percent vs. 45 percent) and ethnic minority directors (29 percent vs. 26 percent) (Table

3A). The presence of women serving on insurance company boards has increased from 43 percent reported in our Eighth Annual Study. Both women and ethnic minority board members are drawn primarily from the ranks of academicians, senior executives of other companies, former government officials and, in the case of minorities, attorneys who do not provide legal services to the company (Table 3B).

The percentage of insurance companies reporting academicians on their boards continues to be strong. In 1984, 63 percent were reported, well above the overall average of 52 percent. The percentage of insurers having commercial bankers on their boards has decreased from 61 percent reported in 1980 and 59 percent in 1983 to 45 percent reported this year. Overall, only 31 percent of the respondents seat commercial bankers on their boards.

4. Is the Chairman also the CEO? Is the CEO also the COO?

Seventy-nine percent of the insurance company respondents state that their chairman of the board is also their chief executive officer. Forty-nine percent report that their chief executive officer is also their chief operating officer.

5. Committees (Table 4)

The audit, executive and compensation committees continue to be the most prevalent standing committees among the insurance respondents. Insurers lead all other responding

groups in the use of the executive (92 percent vs. 80 percent overall), finance (61 percent vs. 38 percent) and corporate ethics (16 percent vs. 7 percent) committees. However, the percentage reporting a benefits committee (16 percent) remains the lowest reported of all responding groups. Fifty-three percent report a nominating committee -- up from 48 percent in 1980 (Table 4A).

The finance committee is again the largest, averaging seven members. The compensation committee rose to six members, up from four members last year. The audit committee is composed entirely of outside directors (Table 4B). The compensation and nominating committees each reported one inside director, up from none in 1983. The finance committee is not only the largest, but it also meets most frequently, averaging eight meetings per year (Table 4C).

6. Compensation (Table 5)

Ninety-two percent of the insurance company respondents compensate their outside directors on an annual plus per-meeting basis. Only two percent use the per-meeting only method of payment and six percent pay an annual fee only, both up from one percent last year.

- **Annual plus Per-Meeting Fee (92 percent of the respondents)**

Although the average total yearly compensation for

outside directors of insurance companies has increased 16 percent over the past five years from $14,140 to $16,400, the group continues to lag behind all but the smaller industrials (under $600 million). Insurers are 13 percent below the $18,800 yearly average reported for all respondents. The components of the total compensation include an $11,200 average annual fee and a $693 average per-meeting fee (Table 5A). The average annual retainer rose 11 percent; the per-meeting fee rose more than $100 per meeting or 19 percent over 1983 per-meeting compensation.

The upper quartile average, included in this section for comparative purposes, is up from last year's $24,528 to $27,300, and above the $27,100 average for all respondents (Table 5B).

7. Committee Compensation

Ninety-four percent of the insurers compensate their outside directors additionally for serving on a committee. For the first time this year, the most prevalent form of payment is the annual plus per-meeting fee, now used by 48 percent, up from 36 percent last year. Only insurance companies and the largest industrials ($3 billion and over) compensate committee members with annual plus per-meeting fees in more cases than the per-meeting fee only. Forty-six percent pay a per-meeting fee only for committee service, down from 58 percent in 1983. Six percent pay an annual fee only.

Committee member fees average $664 per meeting, somewhat lower than the average of $730 paid to all respondents. Committee chairmen are generally compensated at a higher rate than committee members.

8. Additional Compensation Information (Table 6)

Forty-three percent of the insurance company respondents raised board fees during the past year. The average fee increased $2,560, 18 percent over last year's increase of $2,500. In 1984, the average increase for all respondents was $2,710. Twenty-six percent project an increase during the coming year. Similar to all participants, only 69 percent of the insurance company respondents believe that their outside directors are adequately compensated, down from 94 percent last year.

The highest paid insurance company director earned $24,890, exclusive of consulting fees, this past year, up from $22,100 last year. This exceeds the $24,440 average for all respondents. The upper quartile average of $48,100 is substantially above the $41,600 upper quartile average for all respondents. Only retailers and industrials with revenues over $5 billion (Table 6) reported a higher average for this category. Twelve percent of the insurance respondents have at least one director who also receives consulting fees, down from 21 percent last year and less than the 23 percent reported by

all respondents.

Benefits continue to be an increasingly important part of compensation plans for outside directors of insurance companies. Twenty-two percent now offer life insurance and 61 percent have matching educational gifts programs (up from 57 percent). Seventy-five percent have plans that allow deferral of board fees until retirement (up from 70 percent last year), and 12 percent have formal retirement plans. Travel expense reimbursement and directors' liability insurance are provided by 92 percent and 84 percent, respectively.

Ninety percent of the insurers have procedures whereby the board annually reviews and establishes appropriate compensation for the chief executive officer. Eighty-six percent report a board review of the compensation for other senior officers.

-Stock Ownership

Only forty-nine percent of the insurers stated that stock options should not be part of directors' compensation, compared with 76 percent for all respondents. Interestingly, only 16 percent of insurance company bylaws allow for stock options, substantially lower than the 33 percent reported by all companies. Only 39 percent of the insurance companies believe that all directors should own a minimum of 100 shares of company stock, with the majority stating a minimum of 500

shares is preferred.

All but two insurance companies report that outside directors own stock in their companies. Twenty-four percent state that their outside directors own an average of one to 4,000 shares, and 25 percent own between 500 and 6,000 shares.

9. Board Practices and Policies (Table 7)

For the eighth consecutive year, the insurance company respondents averaged seven regular board meetings per year, one less than the average for all respondents. Thirty-nine percent report that they hold at least one of these meetings away from their headquarters, office or a major facility city. Four percent hold at least one meeting outside the country during the year.

An outside director of an insurance company devotes an estimated 111 hours annually to board-related business. This is down somewhat from last year's 116 hours, and still below the 121-hour average for all respondents. The upper quartile average for insurers is 170 hours -- also lower than the 190 overall average (Table 7A). Insurers' board members' hourly rate rose to $148, up from the $130 average reported last year.

While forty-seven percent of the insurance respondents reported an outside director resignation during the past year, 49 percent expect a board vacancy during the coming year. This

is an improvement over last year's expected vacancy rate of 54 percent. Insurance respondents continue to select outside directors primarily based on recommendations by the board chairman and board members, but the use of the formal nominating committee continues to grow -- reported by 65 percent up from 59 percent last year (Table 7B). Insurance companies, along with billion dollar corporations (also 65 percent), lead all other respondent groups in their use of the nominating committee.

Corporate experience remains the primary consideration in asking a prospective director to sit on the board (85 percent vs. 73 percent for all respondents) (Table 7C).

Twenty percent of insurance company respondents had a prospective director decline an invitation to serve on the board (Table 7D). This is up from 11 percent last year but on a par with the 21 percent reported two years ago. The time commitment involved continues to be the major reason for a prospect's declining an invitation.

Ninety-four percent of the insurers permit their chief executive officer to serve on outside public corporate boards compared with 89 percent for all respondents. For senior executives other than the CEO, respondents stated that generally they should not hold more than three board directorships, but limiting the number for these officers was

not a critical factor. Eighty-eight percent of the insurance respondents have mandatory retirement policies. The average retirement age is 68 for inside directors and 70 for outside directors, no change from last year's averages.

10. Issues (Table 8)

Financial results continue to be cited as the most significant issue facing insurance boards today. When asked to rank various issues in order of importance, 82 percent of insurers ranked financial results first, second or third. Other highly ranked issues include strategic planning and day-to-day operations, ranked first, second or third by 53 and 39 percent, respectively. When asked to rank the most important issue five years from now, financial results again placed first (51 percent), followed by strategic planning cited by 47 percent and managerial succession (18 percent).

Financial results continue to occupy the insurance board as the most time-consuming issue, accounting for 28 percent of meeting time.

* * *

TABLE 1 - PARTICIPATING COMPANIES

Fifty-one of America's major insurance companies participated in our Twelfth Annual Study.

Size (Assets)	No. of Insurers	%
Under $2 billion	7	13.7%
$2 billion and over	44	86.3%
TOTAL	51	100.0%

Stock Exchange	No. of Insurers	%
New York Stock Exchange	13	25.5%
American Stock Exchange	--	--
Over-the-Counter	8	15.7%
Mutual	18	35.3%
Private	7	13.7%
No Response	5	9.8%
TOTAL	51	100.0%

TABLE 2 - PRESENT NUMBER OF BOARD MEMBERS

What is the present number of board members?

Size of Company	Average Number Inside Directors	Average Number Outside Directors	Average Number Directors
Under $2 billion	6	9	14
$2 billion and over	4	12	16
Average	5	12	16

TABLE 3 - BOARD COMPOSITION

3A. Are one or more of the following individuals on the board?

Function	1980 Insurance Companies	1984 Insurance Companies	1984 All Companies Surveyed
Senior Executive (other companies)	92.9%	86.3%	87.5%
Retired or Previously Employed Corporate Officer	62.5%	49.0%	46.0%
Commercial Banker	60.7%	45.1%	31.3%
Attorney (provides legal services to the company)	21.4%	29.4%	28.4%
Academician	53.6%	62.7%	51.5%
Investment Banker	19.6%	15.7%	24.3%
Major Shareholder (not officer of the company)	14.3%	13.7%	29.2%
Attorney (does not provide legal services to the company	41.1%	39.2%	33.5%
Former Government Official	32.1%	31.4%	30.8%
Female	42.9%	60.8%	44.7%
Ethnic Minority Representative	23.2%	29.4%	26.2%
Non-U.S. Citizen	8.9%	7.8%	14.8%
International Executive (American)	7.1%	3.9%	7.6%
"Professional" Director	7.1%	11.8%	17.9%
Retired Executive (other company)	64.3%	86.3%	69.4%

3B. From which of the above functions are most women and ethnic minorities drawn?

Function	% Women	% Minorities
Senior Executives (other companies)	22.6%	13.3%
Academicians	32.3%	26.7%
Former Government Officials	12.9%	13.3%
Attorneys (do not provide legal services)	9.7%	26.7%

TABLE 4 - COMMITTEES

4A. Which of the following standing committees does the board have?

Committee	1984 Insurance Companies	1984 All Companies Surveyed
Audit	92.2%	97.6%
Executive	92.2%	79.9%
Compensation	80.4%	85.5%
Finance	60.8%	37.8%
Nominating	52.9%	61.5%
Public Affairs	17.6%	11.5%
Corporate Ethics	15.7%	7.0%
Benefits	15.7%	33.6%

4B. What is the composition of each committee?

Committee	Average Inside Directors	Average Outside Directors	Average Number Directors
Audit	0	4	4
Executive	2	4	6
Compensation	1	5	6
Finance	2	5	7
Nominating	1	4	5
Public Affairs	1	4	5
Corporate Ethics	1	4	5
Benefits	1	2	3

4C. How many committee meetings were held during the past twelve months?

Committee	1983 Average No. of Meetings	1984 Average No. of Meetings
Audit	3	4
Executive	5	5
Compensation	3	4
Finance	8	8
Nominating	3	2
Public Affairs	2	3
Corporate Ethics	3	2
Benefits	2	2

TABLE 5 - COMPENSATION

5A. Annual plus Per-Meeting Fee (92.0% of the Respondents)

Annual Fee Amount	%
Under $3,000	4.4%
$ 3,000 - $ 6,999	19.5%
$ 7,000 - $10,999	28.3%
$11,000 - $13,999	13.0%
$14,000 and over	34.8%
TOTAL	100.0%
Average Annual Fee	$11,200

PLUS

Amount Per Meeting	%
Under $250	4.3%
$250 - $449	10.9%
$450 - $599	26.1%
$600 - $799	37.0%
$800 and over	21.7%
TOTAL	100.0%
Average Per-Meeting Fee	$693

EQUALS

Total Annual Compensation	%
Under $7,000	6.8%
$ 7,000 - $10,999	18.2%
$11,000 - $13,999	11.4%
$14,000 - $16,999	25.0%
$17,000 - $24,999	25.0%
$25,000 and over	100.0%
Average Total Annual Compensation	$16,400

5B. Annual plus Per-Meeting Fee (continued)

Type and Size of Company	Average Compensation	Upper Quartile Average
Insurance Companies	$16,400	$27,300
Banks & Other Financial Institutions	$17,500	$27,000
Retailers	$21,400	$31,000
Service Companies	$18,900	$27,900
Industrials		
Under $200 million	$12,300	$18,200
$200 million - $399 million	$13,000	$14,100
$400 million - $599 million	$15,200	$20,300
$600 million - $999 million	$17,900	$24,800
$1 billion - $2.999 billion	$20,300	$27,500
$3 billion - $4.999 billion	$24,400	$29,500
$5 billion and over	$26,300	$36,100
Average	$18,800	$27,100

TABLE 6 - ADDITIONAL COMPENSATION INFORMATION

How much did the highest paid director receive in 1984 for all board services exclusive of any consulting arrangement?

Amount	%
Under $11,000	9.8%
$11,000 - $16,999	23.6%
$17,000 - $24,999	19.6%
$25,000 - $39,999	27.5%
$40,000 and over	13.7%
Unspecified	5.8%
TOTAL	100.0%
Average	$24,890

Type and Size of Company	Average Compensation	Upper Quartile Average
Insurance Companies	$24,890	$48,100
Banks & Other Financial Institutions	$22,830	$38,100
Retailers	$30,390	$54,200
Service Companies	$27,090	$46,000
Industrials		
Under $200 million	$14,650	$23,600
$200 million - $399 million	$16,210	$28,000
$400 million - $599 million	$18,630	$25,600
$600 million - $999 million	$23,110	$37,800
$1 billion - $2.999 billion	$25,200	$36,000
$3 billion - $4.999 billion	$32,600	$43,800
$5 billion and over	$34,300	$69,100
Average	$24,440	$41,600

TABLE 7 - BOARD PRACTICES AND POLICIES

7A. How many hours (estimated) do directors spend annually on board matters including review and preparation time, meeting attendance and travel?

Number of Hours	%
Under 40	2.0%
41 to 70	17.6%
71 to 130	47.1%
131 to 190	17.7%
191 to 250	3.9%
251 and over	--
No Response	11.7%
TOTAL	100.0%
Average	111 Hours

Type and Size of Company	Number of Hours	Upper Quartile Average
Insurance Companies	111	170
Banks & Other Financial Institutions	114	189
Retailers	109	170
Service Companies	126	196
Industrials		
Under $200 million	102	168
$200 million - $399 million	93	143
$400 million - $599 million	102	165
$600 million - $999 million	108	177
$1 billion - $2.999 billion	139	196
$3 billion - $4.999 billion	141	213
$5 billion - and over	164	224
Average	121	190

7B. How are outside directors located for the board?

	%
Recommended by board members	81.2%
Recommended by chairman	79.2%
Nominating committee	64.6%
Recommended by other corporate officers	41.7%
Referred by executive acquaintances	14.6%

7C. What are the primary considerations in asking a prospective director to sit on the board?

	%
Corporate Experience	84.8%
Specific Industry Experience	21.7%
Specific Functional Experience	17.4%
Prestige	10.9%

7D. Have any prospective directors declined an invitation to serve on the board during the past year?

	%
Yes	19.6%
No	74.5%
No response	5.9%
TOTAL	100.0%

TABLE 8 - ISSUES

What is the relative importance of each of the following issues?

	% Ranking #1	% Ranking #1 or #2	% Ranking #1, #2 or #3
Financial results	56.9%	78.5%	82.4%
Strategic planning	7.8%	33.5%	52.9%
Day-to-day operations	9.8%	31.4%	39.2%
Financing/Capitalization	2.0%	5.9%	23.5%
Managerial succession	5.9%	11.8%	19.6%
Government relations	-	3.9%	13.7%
Mergers/Acquisitions	-	-	7.8%
Corporate ethics	-	2.0%	5.9%

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